

**THE IMPLICATIONS OF
GOVERNMENT REFORM IN NEW ZEALAND FOR
THE CANADIAN AGRI-FOOD SECTOR**

Gary G Storey

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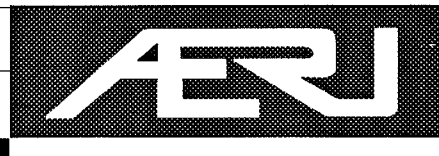
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**Agribusiness and Economics Research Unit
PO Box 84
Lincoln University
Canterbury
New Zealand**

**Ph:(64)(3) 325-2811
Fax: (64)(3) 325-3847**

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ABBREVIATIONS

CRI	Crown Research Institutes
ERA	Effective Rate of Assistance
SOEs	Stated Owned Enterprises
CPI	Consumer Price Index
MFAT	Ministry of Foreign Affairs and Trade
MAF	Ministry of Agriculture, formerly the Ministry of Agriculture and Fisheries
SONZA	Situation and Outlook for New Zealand Agriculture
NZIPA	New Zealand Institute of Public Administration
SRAs	Strategic Result Areas
PPB	Program Planning and Budgeting
FTEs	Full Time Equivalents
MRDC	Meat Research and Development Council
SMPs	Supplementary Minimum Prices
AERU	Agribusiness and Economic Research Unit
DSIR	Department of Scientific and Industrial Research
NPM	New Public Management
ERS	Economic Research Service of the United States Department of Agriculture
VA	Value Added
OECD	Organisation of Economic and Cooperative Development
OMAF	Ontario Ministry of Agriculture and Food
WTO	World Trade Organisation
NAFTA	North American Free Trade Association
GATT	General Agreement on Tariff and Trade
NGO	Non Governmental Organisation
FAO	Food and Agricultural Organisation

SUMMARY

Introduction

This is a report about the development and delivery of economic and policy analysis in the agriculture and agri-food sector in New Zealand and how government reform has affected this activity.

This report was prepared to assist the federal government of Canada in its decisions regarding the future of its current Policy Branch in its agricultural ministry, Agriculture and Agri-Food Canada (AAFC). In 1994 the Office of the Auditor General of Canada published a report Toward Better Governance in which it examined the New Zealand experience in the reform of its public service. In the February 1995 Budget the Federal Government in Canada indicated that the Economic and Policy Analysis Directorate (EPAD) was a candidate for privatisation.

This report examines how managerial reform in government along with economic reform has affected the development and delivery of economic and policy analysis in government and in industry in New Zealand. It highlights issues relevant to Canada as Canadian governments deal with reform and privatization of activities traditionally supplied by government.

Background

With the installation of the new Labour government in 1984 all existing agricultural subsidies were withdrawn. Since agriculture remains a very important sector in the New Zealand economy, where 60 percent of total exports are agriculturally related, New Zealand provides a useful case study for countries like Canada which are in the process of reassessing (reforming) the role of government in the economy as well as in the agricultural sector.

The basis for managerial reform in the New Zealand government stems from the introduction of two pieces of legislation, the State Sector Act (1988) and the Public Finance Act (1989). These in turn have resulted from the conceptual development of a new vision for the management of government developed largely in The Treasury in the 1980s. The intention was to replace the Westminster approach of government with a contracts approach. Under this system the traditional head of a department (i.e. Deputy Minister) has been replaced with a Chief Executive Officer (CEO) who is under contract to the government (Minister) to deliver services as targeted outputs. Based on principal/agent theory which was one of the main elements of the new management it places the Minister in the role as principal and the CEO as agent. The CEO enters into an annual contract for the delivery of services as outputs. The CEO in turn contracts with his/her particular Departmental staff to deliver the actual outputs.

Assessment of the Current Situation in New Zealand

The Ministry of Agriculture has undergone a major restructuring from 1984 to the present in terms of privatization of a number of its previous functions such as extension and user pays for inspection services. It has seen its science research function shifted to a Ministry of Science. Agriculture, however, has retained its in-house policy unit (Agriculture Policy) for the delivery of economic and policy analysis. At no time did government seriously consider privatising this function although there are indications that it was considered. It was not likely considered by MAF itself.

The Agricultural Policy bureau has remained relatively unchanged in terms of staff numbers. What has changed is the composition of the staff. There are less qualified professionals in the policy unit in terms of level of professional training than previously. The assessment is that MAF is no longer a mainline Ministry and is primarily relegated to the delivery of technical services and information. In large part this is the result of the government adopting a "laissez-faire" policy toward the economy where it has focused on managing the macro side of the economy and leaving the micro side to the free market. The observation that the quality of MAF staff, with obvious implications for quality of output, is supported by the view expressed by the outgoing CEO of MAF Dr Russ Ballard. In the March 1996 issue of MAF Update Dr Ballard was quoted as saying: "I hope that there's an opportunity to re-examine the amount of output the minister expects this organisation to deliver. I believe we're already too lean. We don't have the money to invest in staff training and internal info-structures. You can keep this up for a while, but then your quality is going to start to slip." (p.1)

A further assessment is that the New Zealand government has not fully sorted out the role that it sees for itself in the future development of the country's agriculture and food sector. MAF's Vision includes the statement of "Communities and industries that are managing their resources in partnership", but it is not obvious how the government sees how that partnership is to be developed with industry, and with the broader educational and research community.

One of the manifestations of government reform in relation to the agricultural sector is the developing independence of the agricultural sector and businesses. The industries examined, meat, dairy and wool, all have centralised organisations with their own dedicated economic and policy analytical units. These units function largely to provide advice for the commercial operations and policies of the industry. These industries make limited use of economic and policy analysis from MAF. In addition there is no indication based on the industries surveyed that the industries in agriculture are requesting any economic analysis from MAF Agriculture Policy. Should the government consider privatising the Agriculture Policy unit in MAF and thus making it commercial, it is unlikely that it could find a ready market for its services in the private sector. That is, if Canada were to look to New Zealand as a model to reform its economic and policy analytical unit it would not privatise it except possibly in a very limited way. The industries surveyed, however, including New Zealand Federated Farmers Inc. (the country's largest farm organisation) all felt that the government should maintain an in-house dedicated economic and policy analytical unit in the Agricultural Ministry.

The academic community currently plays a limited role in providing economic and policy analysis for government or industry. In previous years, prior to reform and the elimination of subsidies, academics played a much larger role in the development of policies and programs for the delivery of government services and in the evaluation of those policies and programs. At present the policy agenda is much narrower and there is less demand by government for analysis from the academic community. This is unfortunate as there is a real need for analysis of the changing structure and performance of the agricultural and food sector with the introduction of reforms to the economy and to government itself.

There is evidence that the process of reform is not fully resolved. The government has gone to great lengths to imbed the reforms and managerial process of government in statute. One pillar of this is the Fiscal Responsibility Act (1994) which contains principles governing fiscal management. Many see the introduction of the new Mixed Member Proportional voting system in 1996 as a further move to entrench reforms or as some see it as a means of stopping further reforms.

There seems to be general public acceptance for the need to have eliminated the annual fiscal deficits, the level of debt in relation to GDP, and the sale of unproductive state owned enterprises, but there is less acceptance for other aspects of reform that are affecting the quality of life especially the areas of health, education and social services. The government has been able to eliminate the deficits but it has done so largely by raising revenues through taxes and increasing dividends from state owned enterprises rather than by reducing expenditures. In recent weeks the government has announced a reduction in income taxes which will largely benefit the middle income group. There was noticeably no increase in support for those unemployed and on assistance. The Prime Minister stated that this was deliberate as it would provide those on assistance with an added incentive to get off support.

There would also appear to be a growing debate over the managerial process of government. This is coming from both inside government and the academic community. It is one of the hypotheses of this paper that the intellectualism that existed in government that provided the basis for reform both in terms of economic reform and managerial reform of government may no longer be in place to now monitor and further guide the reform process. And without this, there is the risk that reform will not reach the optimum in terms of the roles of government for the future development of the New Zealand economy. This would seem to be particularly critical in the case of agriculture where the implications of reduced protection and subsidisation of agricultural and food industries following the latest GATT agreement, calls for efficiency and effectiveness in order for agriculture to be competitive in an increasingly globalized market.

Lessons for Canada

If the federal government in Canada follows the New Zealand model and concentrates on macro economic policy and leaves to the market, and hence the private sector, the micro development and management policies it should expect to see economic and policy analysis begin to flow to those departments of government that are responsible for macro policy, Treasury and the Reserve Bank in the case of New Zealand. Like New Zealand, agriculture will cease to be an important area for federal responsibility except for trade, and certain areas that require third party regulation. This of course depends on the role that the federal government in Canada envisions itself playing in future for the development of the agriculture and food sector.

If Canada follows what has happened in New Zealand as a result of reform and generally adopts a policy of non-intervention in the economy except for the management of macro economics in terms of monetary and fiscal policy it will find that the private sector will look inward and not to government for its future development except in certain areas. These areas would include trade in terms of improving market access, and regulation where necessary.

Based on the New Zealand situation there will be an important role for government in the area of agricultural sustainability although it is not clear what role the federal government should play in Canada given the paramount provincial jurisdiction in this area. Although the New Zealand government had recognised early on the problems of economic and social adjustments in rural areas it is now just starting to recognise the role that it will have to play in resolving the social problems of adjustment in agriculture. Similarly, although there had been recognition of the problems of risk and uncertainty in agriculture there would appear to be inadequate attention now being paid for the development of risk management strategies for farmers and the industry.

It is the position of this paper that the New Zealand government may have undervalued and underestimated its role in the development of an efficient and effective agriculture and food industry. It is not fully clear why government has tended to minimise its role. In part it could be explained by a lack of leadership in government to establish a clear vision for New Zealand agriculture in the 21st century and the role that government must play to achieve that vision. One would have expected that the new managerialism would have contributed to this process. As the Auditor General of Canada's report suggests, the New Zealand approach has had a positive effect of concentrating the focus of Ministers on what they wish to accomplish. It is stated in the report that: "In New Zealand, clarity of objectives was recognised as a key principle behind management reforms; this, together with acceptance of the outcomes/outputs distinction logically led to an extensive separation of policy and operational responsibilities." The vision statement (MAF's Vision) seems to say all the right things in terms of developing an efficient, effective and profitable agri-food industry but the outputs that are called for in the Purchase Agreement do not appear to be commensurate in relation to the outcomes delineated for government to play a meaningful role in agriculture's development.

It is the one of the main conclusions of this study that the new managerialism that has been adopted in New Zealand for government should not be fully adopted in Canada without great care and caution. There is much to commend what reform in New Zealand has accomplished under the new management approach, especially in terms of its transparency and certain elements of its accountability. But there are apparent weaknesses in the new management system which the Auditor General of Canada's report acknowledged but did not fully examine. There is still much to learn about the relative effectiveness and efficiency of the new model of government organisation and management in New Zealand for the delivery of economic and policy analysis for government, and its implications for the agri-food sector.

PREFACE

This Discussion Paper examines Government reform in New Zealand. However, Dr Gary Storey brings a Canadian perspective to this analysis. Canada has lagged behind other OECD countries with respect to economic reform, understandably so in the face of political uncertainty in the last 20 years, but is now reappraising its policy. It is both interesting and valuable to have a Canadian's view of the rather radical reforms in New Zealand's agricultural policy and in the delivery of economic and policy analysis in the agriculture and agri-food sector. This Discussion Paper will be of interest to all students of the reform process, and provides another outsider's view of the New Zealand experiment in agricultural policy reform.

A C Zwart
DIRECTOR

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I would like to thank Agriculture and Agri-Food Canada (AAFC) for the opportunity to carry out this study on the implications of government reform in New Zealand for obtaining economic and policy analysis for the agri-food sector in Canada.

I especially want to thank the AERU for publishing this study. Although the paper was written for the consideration of the federal government in Canada and AAFC in particular I feel that it has something to say to those who are concerned and have a responsibility for the future of the agri-food industry in New Zealand.

The study has proven to be complementary to the main purpose of my sabbatical leave from the University of Saskatchewan which was to study the implications that reform has had for the structure and performance of agri-food industries in New Zealand.

I want to express my appreciation to all those who took the time to provide me with information which was pertinent to this study. They are listed in Appendix A of this report. Several deserve special thanks. To Robin Johnson for his special insights and his efforts in reviewing the manuscript. To a number of colleagues in the Department of Economics and Marketing at Lincoln University who provided advice and constructive criticism; especially Paul Dalziel, Ralph Lattimore, Tony Zwart, Ross Cullen and John Fairweather. To Alan Walker of MAF who provided not only information pertinent to the study but guidance of who to talk to in Wellington, as well as constructive advice on the manuscript.

I want to thank Robert McGregor of the Policy Branch of AAFC for his assistance in the overall development of the study and especially for reacting to a myriad of questions and issues that arose in the course of the development of the study.

Although a great many people provided input and evaluation any errors or omissions are the responsibility of the author.

SECTION ONE

INTRODUCTION TO THE STUDY

1.1 Justification and Need for the Study

Canada is facing a set of problems and issues that require it to examine closely the role of government in the economy and society in general. This is in large part precipitated by an ever increasing national debt as a result of successive years of fiscal deficits. The decision to reduce expenditure implies a lessened interventionist role in the economy. It also causes government to look to where it can commercialise and privatise to obtain cost recovery and to reduce costs. Less government implies a lessened need for a bureaucracy to deliver services which would include economic and policy advice. In the case of Agriculture and Agri-Food Canada (AAFC) the government is in the process of deciding on the future of the Department and its role. In the 1995 Federal Budget the Economic and Policy Analysis Directorate (EPAD), Policy Branch, AAFC was identified as a candidate for privatisation. In the process, various approaches that have been followed in other countries are being examined.

Of all the developed economies New Zealand stands out as the one country that would appear to have made the most drastic adjustments in the role of the public sector in the general economy. New Zealand, therefore, becomes a useful case study of what happens when government decides to play a smaller and different role in the economy and society.

Since the agricultural sector has had a prominent place in the development of New Zealand and remains one of the most important export sectors, New Zealand becomes especially important as that case study. What implications have the new policies had for agriculture? What were the structural adjustments that were carried out? What have been the institutional changes that have affected the agricultural and food industries? What have been the bureaucratic responses?

In order to understand how the changed role of government has affected the overall agricultural and food sector it is necessary to understand the role that government has played in the economic development of New Zealand. This is examined only briefly in the study as it is a subject for a separate study. There are, however, numerous books, reports, etc. that adequately provide this background, (J. B. Condliffe and W. T. G. Airey, 1953; J. B. Condliffe, 1959; Bollard, Alan, and Robert Buckle, 1987; Walker, Simon et al. Editors, 1989).

The central question for the study is, how is agricultural policy currently developed and implemented in New Zealand? This provides the major rationale and focus for the study. If it is assumed that government must play a role in the further and future development of the agricultural and food sector, how can it best and most economically obtain the required economic and policy analysis for these decisions? Does it require an internal dedicated group of economic analysts and policy advisors or can government effectively downsize its permanent staff and rely on outside consultants? Is there some optimal balance between the two? The study attempts to answer this question in the context of the New Zealand experience to date.

Under a philosophy of true 'laissez-faire' does government need economic and policy analysis at all? To what degree is this philosophy held by government, by the ministries responsible for

agriculture and those that affect agriculture directly and indirectly? What is the current opinion in New Zealand on these issues? What has New Zealand learned after ten years of reform?

1.2 Background Questions and Issues

The role of government in the economic and social development of developed economies is undergoing a process of examination and change in most Western democracies. This has been precipitated by society's concern over increasing tax burdens, increased debt and the cost of debt servicing. It has also been affected by a general change in philosophy that the market (private sector) can do a better job of allocating resources for economic development. There is growing evidence that after nearly six decades of increasing direct government involvement in the economy, society is about ready to accept a return to a more "laissez-faire" economic and political system that existed in most Western economies prior to the Great Depression of the 1930s.

If the role of government is to do less, then it follows that there is less need for a large civil service. As a result one would expect to see a reduction in the size of bureaucracies and expect to see governments begin to apply the market test to their civil service. What can be privatised? What can be commercialised?

One solution for government facing large deficits would be to simply downsize by reducing staff. A "market" solution at least offers the civil service an opportunity to survive if they can "make it in the market". The process of privatisation says that, if your services are of value to the public and business in particular there will be a demand for these services. But if your services are not in demand then you, like any product in "the product life cycle", will disappear. In some ways it is a fair process. It is certainly better than government simply deciding to lay off civil servants without giving them the opportunity to change their product mix and develop a new rationale for existence and thus client base.

The issue of the role of government is more fully addressed in Section 6.0 where a perspective is taken on what that role should be where reform has been generally adopted. The perspective taken provides a basis to evaluate the implications of what has to date taken place in New Zealand.

1.3 Objectives of the Study and Terms of Reference

The objective of the study is to investigate, evaluate and report on how the New Zealand government obtains economic and policy analysis on the agriculture and agri-food sector and how governmental reform has affected this activity.

The related questions that formed the details and thus focus of the study are contained in the introductions to each of the sections of the report. They essentially form the specific terms of reference, and thus guidelines for the specific issues and questions that were to be addressed.

1.4 Approach to Study

The approach taken in carrying out the study, the context under which the study was carried out, the steps and procedures followed as well as contacts made are fully outlined in Appendix A.

SECTION 2

STRUCTURE FOR THE DELIVERY OF ECONOMIC AND POLICY ANALYSIS IN GOVERNMENT

2.1 Introduction

The purpose of this section is to examine how the New Zealand government has been restructured and reorganised to carry out its mandate. The focus is for the development and delivery of economic and policy analysis. The examination of how industry obtains its economic and policy analysis both for its internal decision making, as well as its relationships with government is contained in Section 3. This section specifically examines the following questions and issues which relate to government:

- from what sources is economic and policy analysis for the agriculture and agri-food sector obtained by the government (and other stakeholders)?
- what are the coordination and funding arrangements to obtain economic and policy analysis?
- what are the various types of economic and policy analysis required by the government and determine if the government sources specific types of information from specific sources (i.e. internal vs external)?
- who are the key players on both the demand (i.e. government) and supply sides of this process?
- how have the employment conditions of government employees who traditionally were responsible for supplying economic and policy analysis, changed in the last 10 years?

2.2 Basis of Management Structure in the New Zealand Government

There are two pieces of legislation that have resulted in a major change in how the public service is organised and operates. These are the State Sector Act(1988) and the Public Finance Act(1979). Together they have led to a radical departure from the previous ways in which governments determined what they were going to produce, how they were going to produce it and what it would cost. The Office of the Auditor General of Canada, in its report on New Zealand, Toward Better Governance: Public Sector Reform in New Zealand (1984-94) and its Relevance to Canada provides a description of these two key pieces of legislation.

The Auditor's report outlines the major provisions of the State Sector Act(1988) and explains in particular the process in the appointment of the Chief Executive Officers (CEOs) who replaced the heads of Departments. It is important to understand the implications of replacing tenured Heads with contract CEOs. One of the main effects of the reform was the loss of guaranteed tenure of senior public servants. This point is discussed further in Section 5. It has important implications for the delivery of economic and policy analysis. The approach adopted stems from principal/agency theory and public choice theory. It places the Minister in

the role as principal and CEO as agent. It requires the CEO to enter into an annual contract for the delivery of services as outputs. The CEO in turn contracts with the staff of the Department to deliver the outputs. In essence there can be a vertical tier of contracts and thus performance agreements. The performance agreement forms the basis of the way in which the CEO is held accountable to the Minister for the delivery of the outputs that were agreed upon.

The main elements of the Public Finance Act(1989) are outlined and discussed in the Auditor General of Canada's Report. The main features are the following:

- the replacement of the traditional input based system with the outcome-outputs based system. It shifted the onus from input measurement (wages etc.) to output measurement. It went further than the PPB system with its emphasis on outputs and placed more emphasis on first requiring the identification of outcomes which are "impacts on, or the consequences for, the community of the activities of Government". The Report explains that it is the Ministers and the Cabinet collectively that are responsible for defining the outcomes for which they will be held accountable to Parliament and thus the electorate. It is here that New Zealand retains the traditions of its parliamentary democratic system where the political party would develop its platform for its agricultural policies. If elected it would be prepared to adopt its political platform's policies and programs. The government in power can use other means of determining its policies and programs, such as holding industry conferences, receiving petitions from various interest groups or respond to internal needs.
- with this system Ministers purchase various outputs (including policy advice) from their Department as well as from consultants. Outputs are identified as programs and policies which a department can deliver in a specified period, to provide information to facilitate actions etc. to achieve desired outcomes. The Auditor General of Canada's Report makes the point that, the performance measures used to assess the quality of policy advice and other outputs to the Minister, tend to be provided from within a particular department. This issue is discussed at greater length in Section 5.

Note: It would be useful to review pages 36 to 47 of the Auditor General of Canada's Report in order to have a grasp of the various reforms that have resulted from the Act.

2.3 The Management System in Practice in the New Zealand Government

There are two documents that are key to understanding the current New Zealand system of financial management reform which includes how it manages its bureaucracy in terms of what it produces and how it evaluates the performance of what it produces. These are the Purchase Agreement and the Performance Agreement. There are a number of documents that outline the procedures for the preparation of the Agreements, as well as an evaluation of the system. The Treasury has prepared the following: Purchase Agreement Guidelines with Best Practices for Output Performance Measures and Putting it Simply-An Explanatory Guide to Financial Management Reform and The State Services Commission has prepared Chief Executive Performance Agreement, Guidelines and Proforma 1995/96.

Figure 2.1
Budgeting and Reporting

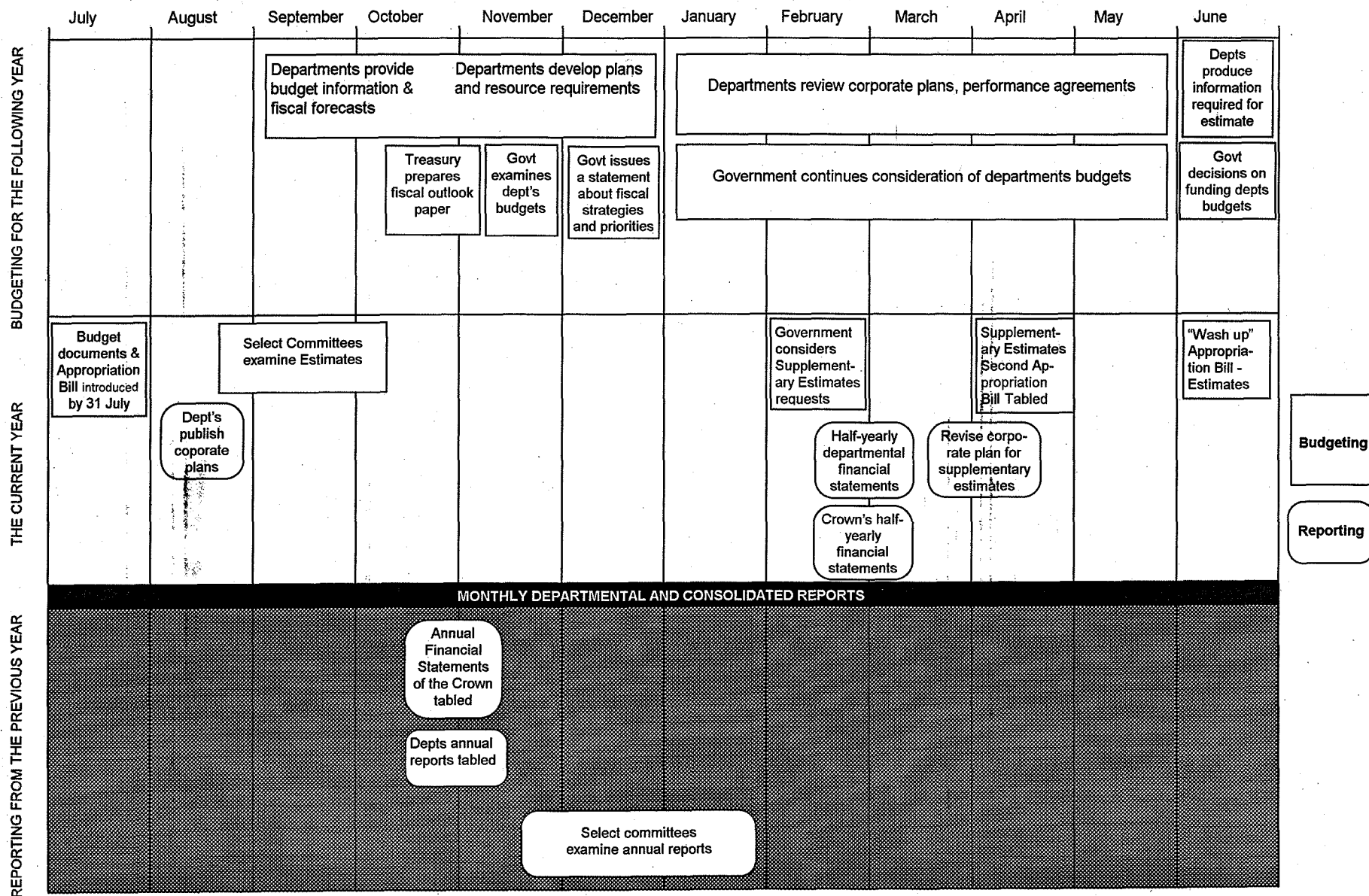


Figure 2.1, Budget and Reporting, outlines the important steps which are followed in producing the government's budget. In addition each department must prepare its corporate plan, Purchase Agreement and Performance Agreement for agreement between the Minister and the CEO. The figure indicates the cycle of reporting from the previous year, the current year and budgeting for the following year. In describing the budget cycle the report "Putting it Simply" explains in terms of policy advice that, "Before it can make Budget decisions, the Government needs policy advice. As sellers of outputs, departments have an interest in the policy advice they tender. The Government should seek advice from a number of different sources: policy ministers, producers of outputs and private sector advisors. These people will:

- evaluate the relationship between outputs and outcomes
- assist in determining which output is most likely to produce the desired outcomes
- recommend providers (and conditions and terms)
- recommend changes in output levels and mix
- evaluate the efficiency of departments.

Departments will continue to need people in a policy advice role to "market" their proposal to Government. (p.31)

Although it closely follows Figure 2.1, the management cycle as it applies to MAF is shown in Figure 2.2. This shows that the Purchase and Performance agreements must be completed by the July/August stage of the planning cycle. More will be said in Section 5 when the system is evaluated.

2.4 MAF Organisation and Structure

Figure 2.3 sets out the MAF structure for 1994. At this time, there were 3 bureaus concerned with policy advice - Agriculture Policy, Fisheries Policy and the Regulatory Authority. Earlier, in 1991, Agricultural Research had been transferred to a Science Ministry. These bureaus employed around 300 persons in 1994. In addition, MAF consisted of four other bureaus, each specifically concerned with delivering inspection services, fisheries services, corporate services and extension services.

Since 1994, fisheries policy and delivery have been separated off into a separate Ministry and Agriculture New Zealand (the extension service) sold to the private sector. Inspection services remain in the fold and corporate services reabsorbed among the remaining bureaus.

The 1996 position is therefore of a Ministry of two policy bureaus and one delivery bureau confined to matters concerning the regulatory (both policy and delivery) and policy advice formations of government. The agriculture staff in policy positions number around 100 with another 100 support staff.

The Agriculture Policy bureau has remained relatively unchanged in staff numbers through this reform process, of approximately 50 policy staff plus support staff. The Group Directors are supported by three Directorates (Administration, External and Domestic Policy) senior analysts and graduate staff.

2.5 Agriculture Policy Branch Resource Base

MAF Policy Group has 73 staff. The Group Director, is supported by five Directorates: External, Domestic, Science, Agribusiness and Rural.

It was not easy to obtain the exact number of professionals working in Agriculture Policy and their qualifications (e.g. most advanced degree). One of the Directors went down the telephone list and by memory indicated which professionals had degrees at the Masters and Ph.D. levels. Of the 56 on the list, eight had Masters Degrees, three had Ph.Ds, one of which was in Sociology. It is not clear what degrees and/or other professional education and training were held by the remaining staff. There was one lawyer, Larry Ferguson, who is the Group Director of Agriculture Policy.

2.6 Policy Advice Purchase Agreement for MAF, 1995/96

The Purchase Agreement is developed to produce the outputs which are seen as required to achieve the outcomes as set out by the government. In its report Strategic Direction to the Year 2000 MAF set out the following vision.

“For Agriculture, Horticulture and the Food Industries

- agriculture and horticulture sectors that are making maximum contribution to New Zealand’s economic, social and environmental well being.
- industries that are:
 - * the most innovative, efficient and competitive in the world.
 - * meeting the market for high-quality products from a high-quality environment.
 - * based on sustainable practices.
 - * expanding their contribution to New Zealand’s GDP, export earnings and employment levels.
 - * profitable, robust and self-sufficient.
- Communities and industries that are managing their resources in partnership.” (MAF, February, 1995)

In order to understand how the New Zealand government organises economic and policy advice in agriculture, it is important to first examine what economic and policy advice is being sought. The best way to explain this is to examine the current Purchase Agreement. Table 2.1 outlines the budget for MAF with detail for policy advice and facilitation. The Table shows that the budget for policy advice in MAF is \$17.3 million for 1995/96. This can also be broken down into operating budget available, \$8.9 million; operational research \$5.5 million; and AGRIC NZ contracts, \$3.1 million.

The description provided for the of output class 1: policy is, “This class of outputs provides a range of policy advice and decision-support to the Minister and Government on the

agricultural, horticultural and seafood sectors, the scope of the class covers production, processing industry sector, rural communities, market outlook and market access negotiations on technical barriers to trade. It also includes measures for facilitating understanding and uptake of Government policy". (p.8).

The breakdown by output class in Table 2.1 indicate the descriptive categories of policy outputs that are recognised. It shows that the focus is on trade, agribusiness and rural resources. The specific descriptions for each output class for the policy area are contained in Appendix B of this report. They are also available in the 1995/96 purchase agreement but are reproduced here mostly for convenience for reference purposes. The terminology can be interpreted as follows:

- Strategic Results Areas (SRAs), are a statement of the outcomes which are being sought, and derive from a master strategic document administered by the Prime Ministers Department.
- Key Results can be interpreted as the output that provides the basis for achieving the specified SRAs or outcomes and is prepared by the CEO's office.
- Milestones are specified work output highlights within more general work programs and can be identified as papers, new legislation, policy proposals etc. prepared by staff at all levels and approved by senior policy staff at the Director level (see Section 2.4).

Milestones in most cases represent probably less than 70 percent of the ongoing work of the organisation-a large amount of which is concerned with maintenance operations, i.e. maintaining trade access, maintaining databases, maintaining information sources, maintaining capabilities to carry out analysis and policy advice functions, etc.

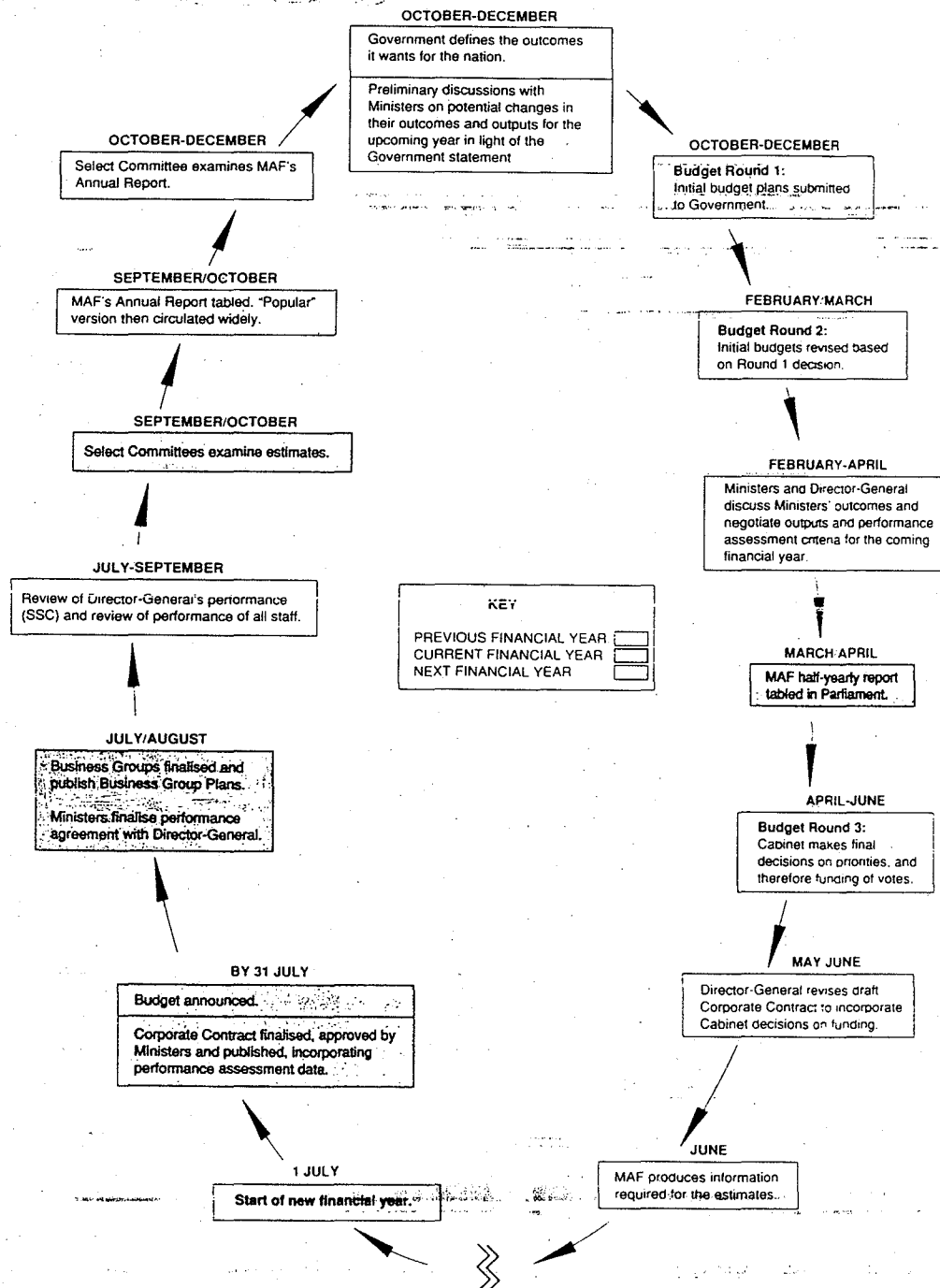


Figure 2.2
MAF Planning Cycle

Table 2.1
Summary of Outputs Purchased, 1995/96 Purchase Agreement for MAF

	Revenue Crown (\$1000)	Revenue Other (\$1000)
Output Class 1 Policy Advice and Facilitation	17,339	60
1.1 Trade Liberalisation	3,049	
1.2 Agribusiness	4,826	
1.3 Rural Resources	5,900	
1.4 Climate and Other Adverse Effects	889	
1.5 Science	997	
1.6 Animal Welfare	906	
1.7 Ministerial Servicing	870	
Output Class 2 Management of Grants, Contracts and Irrigation Schemes	305	
Output Class 3 Administration of Agricultural Security, Quality Assurance and Pest Management	6,488	6,305
Output Class 4 Animal Welfare Services	641	
Output Class 5 Border Inspection and Quarantine Services	8,329	6,428
Output Class 6 Pest and Disease Surveillance Services	8,376	
Output Class 7 Pest and Disease Emergency Response Services	8,511	
Output Class 8 Control of Tuberculosis Vectors	14,282	
TOTAL	64,271	12,938

Source: 1995/96 Purchase Agreement Between the Minister of Agriculture and the Director-General of the Ministry of Agriculture for the Year Ended 30 June 1996.

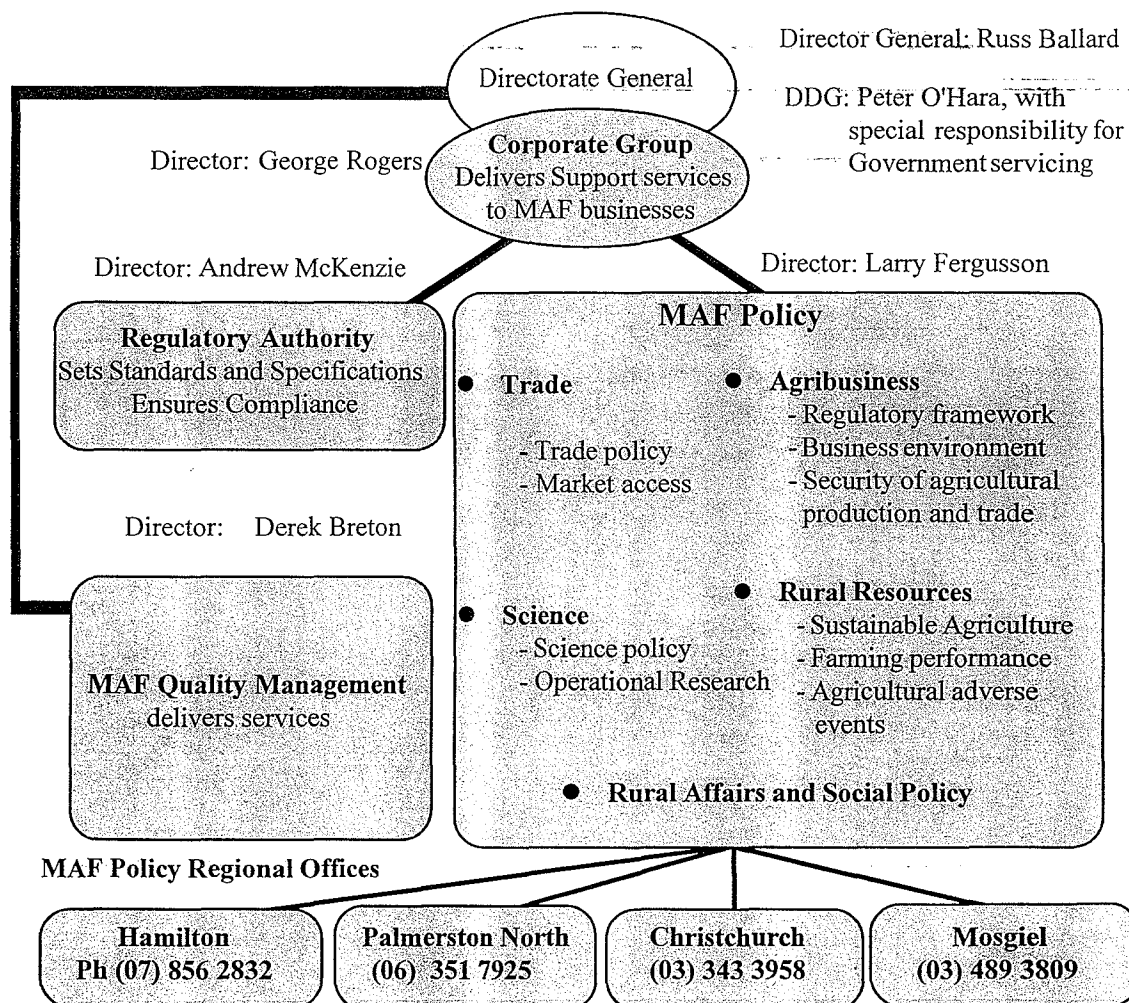


Figure 2.3
MAF Structure

SECTION 3

STRUCTURE FOR THE DELIVERY OF ECONOMIC AND POLICY ADVICE IN INDUSTRY AND OTHER ORGANISATIONS

3.1 Introduction

The purpose of this section is to examine how economic and policy advice is organised and delivered in some of the key agricultural industries in New Zealand. It was not possible to examine all agriculture and food industries and the specific firms in each of these industries. It was decided, given the limited time available, to concentrate on New Zealand's three most important agricultural industries; dairy, wool and meat.

This section also includes a description of how economic and policy advice is delivered in Federated Farmers Inc. as it is the prime farm lobby organisation in New Zealand and is thus relevant for this study. A description of the New Zealand Institute of Public Administration is included as it provides a forum for the examination of the issues of the new management system that has been adopted by the government.

There is a discussion of the role of the academic community in the current delivery of economic and policy analysis to government and industry.

Most of the questions that were provided as terms of reference for government, which were outlined in the Introduction of Section 2 are relevant for industry. Those that are relevant are repeated here for convenience:

- from what sources is economic and policy analysis for the agriculture and agri-food sector obtained by the government (and other stakeholders)?
- what are the coordination and funding arrangements to obtain economic and policy analysis?
- what are the various types of economic and policy analysis required by the government and determine if the government sources specific types of information from specific sources (i.e. internal vs. external)?
- who are the key players on both the demand (i.e. government) and supply sides of this process?
- what are the relationships between the various agencies that supply information and analysis to government (and other stakeholders)?

3.2 Economic and Policy Analysis in Industry

It is important to understand to what degree firms and agencies in the key industries carry out economic analysis and for what purposes. The following description and understanding is based on three interviews. (See Appendix A for industries and individuals interviewed).

New Zealand Dairy Board

The Dairy Board is the marketing arm of the New Zealand dairy industry. The corporate profile states that it is "an industry distinguished by its absence of subsidies and other Government assistance, and the major contribution it makes to the nation's export earnings". (New Zealand Dairy Board, Corporate Profile)

New Zealand supplies 25 percent of world trade in dairy products although it has only 1.5 percent of world milk production. Milk production was 732 million kilograms of mild solids in 1994/95. The group revenue was \$5,019 million in 1994/95. Milk payout was 339 cents per kilogram of milk solids in 1994/95 and is estimated to be 400 cents in 1995/96.

The Dairy Board consists of a network of 60 subsidiaries and associate companies throughout the world. The Board markets all dairy products manufactured in New Zealand. Although the government has granted the Board sole seller status the government plays no role in the day-to-day affairs of the Board. The Dairy Board is fully owned by and accountable to the dairy industry. Policy direction is determined by the Board consisting of 13 directors, 11 elected by the cooperative dairy companies and two appointed by government. Control therefore rests with dairy farmers.

The Board reports to the industry through newsletters and publications to inform the companies and farmers of the Board's business. Policies and Board performance are debated at regular conferences.

The product divisions are supported by four other divisions: Services, Finance and Treasury, External Policy and the Secretariat which includes the computer center.

The external policy division has six FTEs, five analysts and a secretary. The budget is approximately \$400,000 which is funded totally by the Board. The analysts are in pure operating roles. Nigel Mitchell, who directs the external policy unit, made it emphatically clear that the Board is not a policy organisation meaning that it does little in the way of interfacing with government over policy issues. The only exception would be trade policy where it would make its view known to government on this issue. The main work of the policy unit is to carry out economic analysis for the commercial policies of the Board.

The Dairy Board is doing more economic analysis than it was doing in 1984. This is related to the fact that the Board is more autonomous than it was previously. The government no longer "backstops" the Board. Mitchell said that the Board is more comfortable with the current relationship with government. They see the role of government as setting standards and ensuring that the standards are being met. This is critical for their international market. But he feels that the delivery of the services to monitor quality should be made contestable.

Overall they see the main role of government to establish sound macro policy and to work toward an international trading environment for New Zealand's interests. They are comfortable that the key issues are being addressed by government. One concern is that in the

policy area there is a danger that policy formulation could become too compartmentalised. He sees that there is less interdepartmental communication in government largely as a result of the purchase agreement system. He adds that purchase agreements work against cooperation within government. The good thing about the new system is that outputs are more timely and there are less "turf fights" inside government.

Mitchell said that their industry does not request that government carry out any economic and policy analysis for them. He said that they use MAF's Outlook Report but likely wouldn't buy these services if they were not provided free. They periodically will have specialised studies carried out by consultants. Two recent studies dealt with dairy cooperative payments and cooperatives. He feels that there are no major gaps in information that are required by their industry for its economic development.

On the question of "could economic and policy analysis be privatised for government in general", the answer was "yes", economic analysis could be privatised but "no", policy analysis could not be. From the Dairy Board's perspective it needs its own dedicated unit for internal policy analysis and also for those areas of policy where it interfaces with government.

New Zealand Wool Board

The Wool Board is a statutory body established under the Wool Industry Act of 1977. Its charter is "to obtain, in the interests of New Zealand woolgrowers, the best possible long term returns for New Zealand wool". The activities of the Wool Board are carried out under Wools of New Zealand which is the operational arm of the Board. The vision of Wools of New Zealand is: "to make New Zealand wool the most valued wool in the world. This will be achieved by:

- encouraging and supporting growers to produce the wool the market wants,
- positively differentiating New Zealand wool from competing fibres, and
- anticipating and satisfying manufacturers' and consumers' needs." (Annual Report)

It is useful to report that the Wool Board completed a strategic planning process which culminated in a clear vision for the industry and a set of targets by which the Board has invited its stakeholders to judge its future performance. Each woolgrower has received a wall planner outlining these targets.

The strategic planning process resulted in a changed strategy. The Board in 1994/95 reduced its wool stocks and fully cleared its debts to coincide with the new strategy. The strategy calls for the establishment of a number of selected manufacturing partners who are prepared to meet the high New Zealand wool minimum requirements and have a strong presence in their markets. Their target was to have 200 partners, which largely has been achieved.

This has been a change in strategy from "distant licensing" arrangements to that of partnerships. Another component of the strategy is the establishment of a new brand, called Fernmark.

The Wool Board has told government that it wishes to relinquish many of its statutory powers. In reference to these changes the Annual Report states under Review of Legislation. "It is frustrating that changes to the Wool Industry Act are taking so long to enact. We want to

concentrate our energies, without distraction, upon research and development, technology transfer, promotion of information and services which support the production of wool that meets the needs of the market.”

Research and development is recognised as important to the future of the New Zealand wool industry. The Annual Report states that: “With government funding available in this area not being sufficient, Wools of New Zealand research funding in 1994/95 was significantly increased. On-farm research has been most severely hit by the changes in government research funding.” The Report indicates that the government is more sympathetic to providing research monies to adding value, beyond the farm gate. The Wool Research Organisation of New Zealand (WRONZ) is the research arm of the industry. Its budget has been increased from \$6.3 million in 1991/92 to \$12.2 million in 1994/95. Wools of New Zealand invested \$4.3 million in applied research programs. In addition about \$6 million was directed at technology transfer and commercialisation to take full advantage of their research expenditure.

To finance its operations the Wool Board collected \$64.4 million in levies in 1994/95. The basic levy is set at 6 percent of the value of the wool. The levy was spent as follows: product marketing, 60 percent, research and development, 14 percent, fibre marketing, 5 percent, grower services, 5 percent and corporate services and other, 16 percent.

In 1994/95 the industry produced 213 thousand tonnes of wool from approximately 50 million sheep. The wool sector earned \$1.5 billion in export income in 1994/95. Wool fibre was 83 percent of this total, and 17 percent was wool products. China/Hong Kong is the main market at 30 percent.

The Meat and Wool Board Economic Service provides economic and policy analysis for the Wool and the Meat Boards. In addition to Mr R Davison as Director, there are three economists and support staff. There are eight field staff who are engaged to survey sheep and beef farms, to provide input into the forecasts that are prepared. They measure physical production, financial records, income and expenditures. The budget for the unit is approximately \$1 million. The funding is all internal.

There has been no change to their core research program since 1984. Their forecasts are not made public; they are for internal use. The forecasts are critical for planning purposes in terms of processing, marketing transportation, etc. Their target is to be within 3 percent accuracy on 18 month forecasts.

They do not use government economic and analytical services. They do not request any economic analysis from government. The reason is the need for confidentiality. The Board feels that it needs a dedicated analytical service that it would not get on a contract basis with government or other agency. The Board wants a unit that is “independent and authoritative”. They are willing, however, to sell their forecasts on a contract basis. They are consulted in the preparation of MAF’s Outlook Report, which is an annual publication.

When asked about the current system providing information for informed policy debate, there was the feeling that the government had a good track record on trade. On the issue of resources, Mr Davison felt that there was a whole new learning process required and the government in this area was struggling to find its proper role. He, however, offered no specific advice on what he felt that role to be.

There was some concern expressed that the government didn't know what it wants from policy analysis in MAF. MAF was heading toward a dedicated policy unit. If it were privatised it would possibly sort out what was really needed.

If there were gaps in information it was related to understanding markets and consumers demands but this was seen as a private sector responsibility. Industries needed to do this on their own.

New Zealand Meat Research and Development Council (MRDC)

The meat industry comprises a large area of investment in New Zealand. Investment is estimated at \$22.3 billion on sheep and beef farms and \$2.2 billion in meat processing plants. Employment is estimated at 37,000 on farms and another 20,000 in meat processing. For the year ending June 1995, output from the meat industry was \$3.85 billion of which 88 percent was export earnings. Meat made up 16 percent of all New Zealand exports. (R. Davison, September 1995)

The MRDC is a subsidiary of the New Zealand Meat Producers Board. It is funded by meat producers through the Board. Its goal is to improve the profitability of the New Zealand meat and pastoral industry. Its mandate is to identify the most crucial areas for research and development, communicating development to the meat industry, maximising and encouraging research, ensuring accountability to research funders, and improving the overall effectiveness and efficiency of research and development management. There is a farm levy of \$.47 per lamb slaughtered.

The MRDC was born out of the restructuring in the meat industry that occurred with reform. After the SMPs were abolished in 1984 farmers reassessed their situation. Sheep numbers fell from about 70 million to 50 million. This put slaughter/processing plants in financial trouble. The MRDC was established in 1990 mainly as a result of the problems in the industry.

It was stated that MRDC is run like a small development bank. It receives no grants. It does compete and gets 30 percent of its funds outside the industry. Its current contestable funds are at \$8.1 million.

At present the research priority areas are: disease, processing cost reduction, on-farm productivity, decision support systems, market opportunities and fresh meat strategy. The Board sees itself as a long term funder of research projects. Nearly 75 percent of the projects will be funded for not less than three years. The priorities of the Council take account of the strategic direction of the Foundation for Research, Science and Technology. This is done to align the priorities of the Council with government direction to provide better opportunity for joint research venture funding between Council and Government.

MRDC does not have a research staff. Its operations are to facilitate research. It, therefore, does no internal economic and policy analysis. A review of the projects funded showed little or no research focusing on economic and/or policy analysis.

3.3 Economic and Policy Analysis in Other Organisations

Three organisations were singled out for review: Federated Farmers of New Zealand Inc. and the New Zealand Institute of Public Administration and the Agribusiness and Economic Research Unit (AERU) of Lincoln University.

New Zealand Federated Farmers Inc.

The year 1995 marked the 50th anniversary of Federated Farmers. The membership currently stands at 21,000, where farm numbers in New Zealand are approximately 80,000. Thirteen other specialist producer groups are affiliated with Federated Farmers. It is also affiliated with the International Federation of Agricultural Producers. Federated Farmers is governed by its Annual National Conference, a smaller National Council and a National Executive which meets on a regular basis. The national office is in Wellington. It provides policy development, lobbying and legal services.

The Mission of Federated Farmers is “to add value to the business of farming” and its Aims are “to optimise the farming business operating environment, promote the enhancement of rural infrastructure which meets the needs of the rural community, promote responsible farm management and environmental practices and efficiently and effectively manage our business.” As stated, “Federated Farmers stands for an open, enterprise economy. We say this is best for farmers and for the nation as a whole, to achieve employment growth and increased living standards. Our vision is of a high productivity, high income, high employment, market economy. This requires flexible markets of labour, goods and services, low inflation, maximum sustainable resources-capital and people-and sustained investment in technology and education.” (Annual Report 1995)

The national office consists of 15 people of whom there are three who are full time policy people, of which two are economists. Their focus tends to be on all things that affect farmers in terms of taxes, land issues, rural services (e.g. electricity, post offices, health, education) transportation and others. The overall budget is approximately \$3 million of which \$300,000 is for economic and policy related work. They are doing more economic analysis than in 1984 but less than three to four years ago.

The future roles for government are seen to be to continue with reform to other sectors of the economy and to provide direction and leadership in resolving the issue of producer marketing boards. It was not clear where Federated Farmers stand on the issue of marketing boards. The main issues for economic and policy analysis were felt to be inflation and money supply regulation, tax reform, local government reform, and privatisation of certain sectors such as ports. They encourage government to continue support of the CRIs and thus scientific research.

Federated Farmers don't request economic and policy analysis from MAF. On occasion they will make a recommendation that a certain problem be looked at however.

It was not foreseen that economic and policy analysis would be privatised in the government; he felt that government needed a dedicated policy analytical unit. Federated Farmers supports the principle of privatisation but not when it comes to economic and policy analysis in government.

New Zealand Institute of Public Administration (NZIPA) and Dr Royce Elliott

“The NZIPA is a voluntary, non-profit organisation committed to promoting informed debate on issues already significant in the way New Zealanders govern themselves, or which are emerging as issues calling for decisions on what sorts of laws and management New Zealanders are prepared to accept.” (Public Sector, Vol. 18, No 2, June 1995) It arranges seminars and workshops for people to debate issues. Its membership includes a wide range of professional managers, advisors and teachers in the public sector. It publishes Public Sector which is a quarterly journal of research, reviews, and reports from seminars and debates.

One of the main reasons for visiting the NZIPA was to talk to its current Executive Director, Dr Royce Elliott. Dr Elliott spent most of his career in MAF. His Ph.D. is in veterinary science but he developed additional training in systems management. He was Acting Director General when the new contracts program was introduced in government. He was in private practice for six years, then in Agricultural Research in MAF, then Director of the Dairy Division of MAF.

He commented on a number of the changes that have taken place in MAF. One of the key changes was the reduction in the number of divisions. He felt that this was useful but the structural changes have gone too far. MAF has lost its research area, with government research now in the Ministry of Science. He said that the government tried to turn MAF Quality into a Crown enterprise. This was not acceptable to New Zealand's trading partners. The concern was over “capture” by the private sector--so the government backed off. It appears that other governments wanted the ‘government’ guarantee retained absolutely. (Agriculture and Agri-food Canada was probably consulted.).

There are certainly alternative views on some of these issues. Some would argue that for a country the size of New Zealand, and where coordination is essential, research should be contained largely in one Ministry. This is what was done, and MAF lost direct control over its own research agenda. In the same vein some would question whether there is capture by the private sector, in this case, regulation of food quality. It is the opinion of the author that the regulation of quality has public good elements and thus requires effective third party intervention. The other issue is whether countries use quality and regulation as a protectionist instrument and further whether professional practices can be relied upon to arrive at a fair and equitable assessment of regulations in this area. It is a most difficult issue. It deserves more attention than it has probably been given.

One of his most significant points was that there never was a serious consideration to privatise the role of policy development in MAF. This point was corroborated as well by several of the current MAF officials who were interviewed. ~~The preference was to have a strong discipline base inside the Department.~~

The Academic Community

There are two major agricultural universities in New Zealand, Massey University located at Palmerston North in the north island and Lincoln University located near Christchurch in the south island. Both universities have departments that specialise in the broader economics discipline as it relates to the agricultural and food sectors. For the purpose of this paper the focus will be on Lincoln University and in particular the Agribusiness and Economics Research Unit (AERU). The AERU is connected to the Economics and Marketing Department although it is administered and funded separately. It provides an example of a research unit

that was established initially mainly for the purpose of carrying out economic analysis for the agricultural sector.

The AERU was originally founded as the Agricultural Economics Research Unit in 1962. It was supported by an annual grant provided by the Department of Scientific and Industrial Research(DSIR). DSIR provided \$100,000 per year which was matched by then Lincoln College. DSIR funding was discontinued in 1986 but Lincoln University has continued to provide \$100,000. In recognition of the AERU's wider research activity in the agribusiness sector its name was changed in 1987.

"The AERU operates as a semi-commercial research agency. Research contracts are carried out for clients on a commercial basis and University research is supported by the AERU through sponsorship of post graduate research programs. Research clients include Government Departments, both within New Zealand and from other countries, international agencies, New Zealand companies and organisations, individuals and farmers. Research results are presented through private client reports, where this is required and through the publication system operated by the AERU. Two publication series are supported: Research Reports and Discussion Papers." (AERU Pamphlet)

"The major research areas supported by the AERU include trade policy, marketing (both institutional and consumer), accounting, finance, management, agricultural economics and rural sociology. In addition to the research activities, the AERU supports conferences and seminars on topical issues and AERU staff are involved in a wide range of professional and College related extension activities." (AERU Pamphlet)

Although the above statements represent what the AERU is capable and willing to undertake, and in some respects what it has done in the past, it does not accurately reflect its current level and range of activities.

The current Director of the AERU is Professor A.(Tony) Zwart. The current staff consists of a full time secretary, and approximately 1.7 full time researchers in addition to the Director. Policy direction for the AERU is provided by a Review Committee which meets as required, an AERU Management Committee comprised of the Vice Chancellor, the Professors of the three associated departments. This means that over 50 professionals are available to carry out research etc. through the AERU.

In 1995 the AERU completed eight projects with a total budget of \$130,000, submitted 27 proposals with a budget total of \$417,000, and had 11 proposals accepted with a budget value of \$134,000. There were in addition nine proposals pending with a total budget of \$60,000.

The AERU had the following number of publications: four research reports/discussion papers, seven client reports, two journal articles, six journal articles submitted, one conference paper, four seminars, four review, and two other reports. The AERU also published eight discussion papers of Department of Economics and Marketing staff. The AERU collaborated on nine projects within Lincoln University and with five outside organisations plus four graduate students supervised.

Professor Zwart indicated that the AERU probably reached its peak in terms of professional staff and output in 1982. At that time it had a staff of 20 professionals. Research consisted of large contracts with government in particular MAF. It carried out an annual Town Milk Survey and an Arable Industry Survey. Work for the Wheat Board was lost when the Wheat

Board was discontinued. Then when the government discontinued agricultural subsidies and most of its direct involvement in the agricultural sector in 1984, research work for MAF declined even further. There is less economic and policy analysis work being carried out as there are less policy issues on the public agenda.

Professor Zwart sees the need and opportunity for the establishment of a larger business liaison group within the commerce area of Lincoln University. In brief this unit would have as its objectives to formalise the linkages between the University and the New Zealand business community, to increase the opportunities for Lincoln Commerce students to be involved in the business community and increase their opportunities for employment, to assist faculty in increasing their research involvement with the business community and to provide outside organisations the means of benefiting from the expertise of the University.

This proposal was initiated in September 1994 but to date the University has not acted on it. One of the problems would seem to be the level of demand from the business community for research and broader involvement in educational programs. It would seem that there is a need for a survey of the business community which has not been carried out. Thus it remains uncertain what the future is for the academic communities involvement with business and thus industry in New Zealand. But in terms of involvement with the MAF the demand for economic and policy remains limited. The relationship between the MAF and the academic community could be strengthened in several ways. Grant McFadden of MAF referred to a proposal that would see MAF fund and place an economist with each of the major economic departments of the key universities. To date this too has not been acted upon.

3.4 Summary

The marketing boards support physical research in their respective areas but are not directly involved in governmental policy advice or research. They are consulted frequently on government policy issues. Their powers only exist at the discretion of the government.

Federated Farmers deal directly with both political representatives and bureaucrats. They are consulted frequently. They are good at making their views known to government.

Evidence suggests that there is limited research being carried out on economic analysis and even less policy analysis being carried out for government in economic departments in New Zealand universities. This conclusion however is largely based on the current situation at Lincoln University. People here are not aware of any major activities at Massey University in economic and policy analysis for government.

SECTION 4

THE EVOLUTION OF REFORM AND ITS IMPACTS

4.1 Introduction

This section focuses on questions that relate to the development and delivery of economic and policy analysis in government and industry. It specifically attempts to answer the following questions:

- to what extent does the current structure in agriculture represent long established institutional development and arrangements?
- how much has the relationship been modified/affected by reforms since the mid-1980s?
- how has the relationship between academic/publicly funded research centres/government departments altered over the last 10 years?
- is the system still evolving, in what direction does it appear to be heading (i.e. more or less commercialisation)

One of the key issues is how far should reform go? What in other words is the new equilibrium? What is optimum in terms of the quantity and quality of government intervention in the economy, in agriculture and food? What is the quantity and quality of professional staff (private consultants and academics) required to guide the state and the private sector in terms of economic and policy analysis? How and who decides when downsizing has gone far enough? Is it true that more laissez-faire is always better? What paradigm will provide the basis to answer these questions. And what analysis is required?

It is not obvious at the present that there is in place the paradigm and model to decide. But it is interesting that there does not appear to be much evidence that any one is willing to take anyone seriously who even asks these questions. But one can find in the literature at least the skeptics and importantly scholars who are providing the theoretical base to provide the analysis for evaluating reform and the process of reform. It is not clear whether they can be found inside the bureaucracy. New Zealand appears to be basking in the “glory” of the attention that it is receiving for its “reforms” and does not want to admit that it needs to be cautious in taking reform to an extreme, that in the extreme too little government may be a bad thing. On this point the recent book by Jane Kelsey, The New Zealand Experiment, A World Model for Structural Adjustment, 1995 which is questioning the degree of reform has not found a receptive audience. Others such as Boston, Martin and Walsh are providing a more cautious questioning of what has been adopted as reforms.

4.2 The Beginnings of Reform and Critique of the Reform Process

In order to evaluate how the “reform” process has affected the agricultural sector and thus be able to evaluate its degree of success it is important to understand the origins of thinking that took place both prior to 1984 and subsequently. This is quite well summarised by the Auditor General of Canada’s report, pages 17 to 28. However, for anyone who wishes to fully understand the reform process from inception to the present and be able to draw one’s own conclusions about what it has accomplished it is imperative that one reads something more than someone else’s brief and summary. With that said, the following attempts to provide that summary but also a guide for additional reading.

As the Auditor General of Canada’s report correctly explains, there had been prior to 1984 (when the reform process was launched by the new Labour Government) a concern inside the New Zealand bureaucracy about the lack of effective management and accountability of the country’s state of affairs. This concern perhaps surfaced in New Zealand and culminated in reforms here first, at least first to the degree that changes were made, because of the dominant role of the state in the economic and social life of the nation. It was probably also influenced by the degree to which New Zealand’s standard of living had fallen. It thus may have been obvious in New Zealand first relative to other countries that there was a direct correlation between state intervention and lack of economic growth. It will be interesting to examine the results of the recent study Economic Freedom of the World 1975-1995 by James Gwartney and Roger Block (see The Economist, January 13 to 19, 1996). It reports that New Zealand now ranks third in the Index of Economic Freedom out of 102 countries studied. The related question is how well is the New Zealand economy doing as a result of the extensive reforms that have taken place?

What gave rise to reform? Boston explains that many forces converged that resulted in this “remarkable wave of reform”. These included fiscal imperatives, the general ideological shift to the right and thus the enthusiasm for privatisation and commercialisation, and the quest for accountability for the bureaucracy and political executive. “The documentary evidence shows that the departmental officials in guiding the reform programme, particularly those in the Treasury (1984, 1987), based much of their advice concerning the public sector on an analytical framework grounded in public choice theory, managerialism and the new economics of organisation, most notably agency theory and transaction-cost analysis”. (Boston, J. et al., p.2 and 3). It is his viewpoint that while public choice theory and managerialism had been used in other countries as the basis of certain reforms what was unique to the New Zealand reform paradigm was the addition of the new institutional economics, including the new economics of organisations.

One of the questions that needs to be answered is, what was the degree of intellectual effort that developed the paradigm that established the process of reform that New Zealand has followed? Has the reform model and process that has been applied built into it the seeds of its own destruction and further the inability to maintain the reform? It is important at this point to raise the question about intellectual capacity inside government to decide when to stop the evolution of reform. To the extent that the paradigm has built into it cost saving at the government level how does this affect the quality of professional resources and thus human capital in the bureaucracy? It is one of the hypotheses of this paper, that the government has implicitly in applying the market concept in terms of the outcome/output system introduced the means of reducing the quality of professional staff thus affecting the ability to effectively manage the process of reform.

The purchase system requires that there is an ultimate consumer of product, and this is the Minister and Cabinet. This creates a set of demands for outputs in order to achieve certain outcomes that are supposedly established in a quasi political market. But in a market sense these are nothing more than the outcomes that the government must “sell” to the public through a political process. The ultimate test is the electorate as consumer. The problem of applying the perfect market paradigm here is the question of information and the ability of the consumer to judge quality. In the case of the agricultural sector the consumers of policy results are farmers and agricultural businesses as producers of food and fibre and consumers of food products.

What follows from the hypotheses of the inability of the public and Minister to judge quality is that the market settles on producing an inferior product. The market model applied here will under invest in the bureaucracy. By doing so it does not provide for the quality of intellectual capacity that generated the ideas that produced the reform in the first place. How do we test this hypothesis? We could assume that there is a direct correlation between the number of Ph.Ds in government (e.g. Treasury) and the ability to generate the managerial model for monitoring the system and adjusting the paradigm as time goes on. It is a question of knowing where the equilibrium is in terms of downswing. It is a question of knowing what the appropriate roles and responsibilities of government are. If correct one of the insidious consequences of the paradigm that the intellectuals established is that the model does not have components to maintain the intellectual capacity that created it. This is why I suggest that the reform process may have built into itself the seeds of its own destruction. What forces are in place to prevent this from occurring? This is not clear.

The conclusion that Boston et al. arrive at from public choice theory in the context of self interested rent seeking is that the influence of pressure groups will expand. While maybe okay in the economic market place it is likely to lead to damaging results in the political market place. The rent seeking behaviour of constituents and the attempt by politicians to satisfy their demands will result in ever increasing budgets and thus soak up an ever increasing quantity of resources. Boston et al. state: “As a result, the state will grow well beyond what is necessary to guarantee national security, maintain law and order and satisfy voter preferences. Individual liberty will be undermined. Economic growth will be disrupted. And powerful interest groups will capture a disproportionate share of national income.” (p.3)

The policy conclusion from this school of thought is to constrain the power of politicians, making it more difficult for them to run deficits if necessary or raising taxes beyond a certain level. As Treasury argued (Treasury, 1987, pp.75-76) bureaucrats have a vested interest in their own survival; they should not both advise their Ministers and implement policy at the same time. It is for this reason that the Treasury argued for a broad spectrum for policy advice and for making services provided by the state, including policy advice, contestable, even though this was not followed up later.

The basis of agency theory is to see the world as one in which there is explicit or implicit contracting that takes place where a principal enters into a contract with an agent for the provision of some good or service. Agency theory directs the attention to the negotiation of these contracts and the ways in which there are forms of contract failure. Much depends on how well the contract is negotiated and the conditions under which this takes place. It is more

likely that contract failure will occur if the conditions for negotiating the contract between principal and agent are competitive (self interest seeking) rather than cooperative. The principal/agent perspective resulted in the focus on the need to establish an explicit contracting system so that the Minister as principal could effectively and efficiently contract with his agent the Chief Executive for services. It resulted in the State Sector Act (1988) and its system of contracting for services.

Coase argued that economics should be studied from the perspective of how transactions are carried out, and why firms will decide to carry out production inside the firm rather than rely on the market. As Boston et al. point out, in transaction cost analysis, five major concepts dominate, “uncertainty, small-numbers bargaining, asset specificity, bounded rationality and opportunism”.(p.7) Transaction cost analysis is thus a concept that influenced the thinking about how government services should be provided internally or by contract outside of the Department, that is, in the market.

The last ingredient that influenced the thinking behind the reforms, at least in terms of the reform of the bureaucracy, was managerialism. I feel that it is useful here to report the summarisation that Boston et al. make for New Public Management (NPM). “The central features of (or doctrines) of the NPM can be summarised as follows:

- (a) an emphasis on management rather than on policy, in particular, stresses management skills in preference to technical or professional skills;
- (b) a shift from the use of input controls and bureaucratic procedures and rules to a reliance on quantifiable output measures and performance targets;
- (c) the devolution of management control coupled with the development of new reporting, monitoring and accountability mechanisms;
- (d) the desegregation of large bureaucratic structures into quasi-autonomous agencies, in particular the separation of commercial from non-commercial functions and policy advice from policy implementation;
- (e) a preference for private ownership, contracting out, and contestability in public service provision;
- (f) the imitation of certain private sector management services such as the use of short-term labour contracts, the development of corporate plans, performance agreements and mission statements, the introduction of performance-linked remuneration systems, the development of new management information systems, and a greater concern for corporate image;
- (g) a general preference for monetary incentives rather than non-monetary incentives, such as ethics, ethos, and status; and
- (h) a stress on cost-cutting, efficiency, and cutback management.” (p.9 and 10)

Boston et al. provide anecdotal evidence for how the various theories have been manifested in the new legislation and changes in how government is managed. Public choice theory has led to an emphasis on transparency, the move to decouple policy advice and policy implementation, and large political staffs in the central administration of government to give

Ministers alternative sources of policy advice. Agency theory would have had a bearing on corporatisation and privatisation and influenced the provisions of the State Sector Act in terms of employment contracts for senior public servants and the relationship between Ministers and departmental chief executives. Transaction cost analysis probably gave impetus to the tendency to the formal use of contracts. Managerialism according to Boston et al., has given emphasis to management skills and training in the public sector, making departments more responsive to their customers and other related management issues.

After providing an explanation of how the new political and economic theories influenced the development of the package of reforms, Boston et al. point out the weaknesses of each of these theories. Space does not allow a discussion of these weaknesses and limitations of these theories in terms of their application to reform. What is important is the implications of these weaknesses for the eventual performance of the reforms themselves. One interesting question that was discussed previously is whether the system that put the new reformed system in place (State Sector Act, Public Finance Act, etc.) has the intellectual capacity to monitor and evaluate it. What the final verdict will be on New Zealand's reform is open to speculation. It is an issue that should not be taken lightly.

Anyone contemplating adopting the New Zealand model would be wise to be cautious and to fully understand the product that is under consideration for adoption and its relevance in a new and different setting. In his conclusions on the influence of the four theories Boston provides a note of caution about too quickly adopting a new line of inquiry or conceptual framework and forgetting the strengths of earlier political philosophies, administrative traditions and organisational theories which were shaped by culture and history. It is a warning against continually re-inventing the wheel and repeating the mistakes of the past. This short report cannot do justice to this point but for outsiders who take short term pilgrimages to New Zealand to find nirvana in terms of the model for reform they should begin to pay attention to the scholars who are beginning to question and analyse the new paradigm of reform.

4.3 The Reforms as Applied to Agriculture

Here there is a reliance on a number of sources. One of the most comprehensive accounts of the application of reform to the agricultural sector is: Ron Sandrey and Russell Reynolds, editors, Farming Without Subsidies, New Zealand's Experience. This publication was a MAF Policy Services Project and obviously sponsored by MAF to tell the story of how changes lead to reform program, "to document the major reforms that were carried out from 1984 to late 1989, to assess the consequences for these reforms for the agricultural sector and to discuss key issues facing new policy makers." (p.1). It was in large part sponsored to add support to the Cairns Group position at the Uruguay Round for freer trade, reduced protection and subsidies for agriculture world wide. This point is stressed in the Foreword by the Director-General of MAF, Dr Russell Ballard. "New Zealand's position in advocating substantial reform of international agricultural trade rules in the current Uruguay Round of GATT negotiation is consistent with its domestic action as described in their book. Farming Without Subsidies will contribute to furthering New Zealand's international objectives" (Foreword). It is interesting to note that the ERS, of the USDA provided financial support for the project.

It is not possible given the scope of this paper to examine the structure of New Zealand's agriculture and the impact that reform has had on it. It is important, however, to briefly review the reforms that were carried out and the implications that this has had for MAF and in particular economic and policy analysis.

4.3.1 The Agricultural Sector in New Zealand

The value of agricultural output in New Zealand is estimated at \$10.1 billion NZ for 1995. This is up sharply from the mid 1980s where gross output was \$7.2 billion. It was \$9.3 billion in 1990. By subtracting intermediate consumption the estimated contribution to GDP is \$5.0 billion NZ. Total NZ GDP is estimated at \$87.9 billion for 1995. In 1990 the contribution of agricultural production to GDP was \$4.6 billion and \$3.0 billion in 1985.

This means that agriculture's current contribution to national GDP is 5.7 percent. This has held very steady since about the mid 1980s. It was 13.9 percent in 1966, 10.1 percent in 1971, 9.2 percent in 1976, 9.4 percent in 1981 and 7.7 percent in 1985. This underestimates the total effect that the agricultural sector has on the economy. When value added in terms of processing, transport, input supply and wholesale/retail are taken into account the total contribution to GDP in 1995 is estimated to be \$12.1 billion, or 15 percent of GDP (SONZA)

The composition of gross agriculture production is largely made up for production from pastoral agriculture, although vegetables and fruits have increased over time while cattle, sheep and lambs have declined. Much of course depends on the cyclical nature of prices. Table 4.1 provides some indication of changes in product composition from 1973 onwards.

It is with trade that agriculture makes a much larger contribution to the New Zealand economy. Agriculture contributed between 80 to 90 percent of exports in the mid 1960s and now contributes about 60 percent. It was partly the vulnerability of the economy because of its reliance on agriculture as well as the experience of the 1930s depression which resulted in New Zealand adopting a policy to expand the manufacturing sector and thus create employment. It consequently adopted a program of protection based largely on quantitative controls rather than tariffs. Rayner in Farming Without Subsidies points out that New Zealanders associate the policy of protection with low unemployment and it is for this reason that it was difficult to adopt a policy of free trade. The problem for the agricultural sector was that the import replacement policy resulted in higher prices of importables and thus became a tax on sectors like agriculture. In other words New Zealand farmers were forced to pay higher than world prices for farm machinery and inputs like chemicals and fertilisers.

New Zealand's agriculture thrived on the back of the Korean War and its commonwealth privileges with, in particular the United Kingdom market. This advantage disappeared upon the entry of the UK into the EC in 1973. In addition the increasing subsidisation of agriculture in the EC under the CAP and increasing agricultural productivity led to a worsening in the terms of trade facing agricultural sectors in New Zealand as it did in Canada. It is interesting to note, however, that while it was the dairy sector that was one of the sectors hardest hit in New Zealand because of its reliance on the export market, the same industry in Canada protected through supply management and with price based cost of production, remained profitable.

Table 4.1
Composition of Agricultural Production

	1973 (%)	1985 (%)	1990 (%)	1995 (%)
Wool	22.7	16.0	13.4	10.5
Sheep and lambs	16.8	10.4	9.3	11.2
Cattle	17.4	14.0	12.8	13.3
Dairy products	21.0	19.2	23.3	24.3
Fruit & other horticulture	2.5	7.3	8.5	8.2
Vegetables	2.7	3.1	4.4	4.7
Sub total	83.1	70.0	71.7	72.2
Other	16.9	30.0	28.3	27.8

Source: *Farming Without Subsidies and SONZA, 1995*

In addition, the policy of maintaining an over valued exchange rate on balance penalised agriculture. As Rayner points out, the government recognised the impact that its micro and macro policies were having on the agricultural sector and bowed to the demands of the agricultural sector demands for compensation. However, it was not until the 1960s as Rayner reports in *Farming Without Subsidies*, that there were significant subsidies at the farm level, “from then until 1984 there was a gradual acceleration in production grants and subsidies: taxation schemes included incentives for land development and concessionary livestock valuation schemes; the various forms of fertiliser subsidies continued to increase in size; and loans at below market interest rates became increasingly valuable as market rates increased”. (p.17) It is his analysis that the government was willing to continue on with increased subsidies which were treating the symptoms rather than dealing with the causes, or facing up to the realities of the international market. As terms of trade continued to worsen the government attempted to compensate farmers by raising the level of support to offset the decline in net returns. In effect the policy was one of sheltering the pastoral industries from the reality of the overseas market as well as maintaining a protected manufacturing sector. Rayner argues that this policy thus slowed the process for needed diversification. (Canada took the same approach with the special payments to the grain economy as an offset to the effect of the US export subsidy programs).

A number of schemes were aimed at stabilising and increasing production. Rayner says: “The livestock Incentive Scheme of 1976 was designed to boost stock numbers at a time when they were, appropriately, falling. Land Development Encouragement loans were likewise aimed to increase production, particularly on marginal land.” (p.17). Not all would agree that the policies to stabilise and expand production were flawed. Increased production meant increased exports which would improve trade balances. It would depend of course on whether the increased production was of net benefit to the country. There were programs put in place to expand exports such as tax incentive schemes based on export growth. Rayner stated that: “The full set of policies was essentially in place following the introduction of the Supplementary Minimum Price (SMP) scheme, first introduced in 1978.” (p.18). The problem was that the compensation to agriculture was still not sufficient to offset the cost to agriculture from the protection of the manufacturing sector. Rayner argues that New Zealand would have been better off if protection had been eliminated along with the compensation. The added problem was that the compensation was not balanced. It favoured sheep meat and

thus acted as a disincentive for farmers to diversify. The forms and estimated levels of assistance to pastoral agriculture are shown in Table 4.2

Table 4.2
Forms and Level of Assistance to Pastoral Agriculture
(\$ million)

	1970	1980-84	1985-90	1995
Assistance on output	-13	271	104	4
Assistance on inputs	9	73	28	2
Assistance on V.A. factors	27	429	550	100
Total gross assistance	23	773	681	106
Less excess costs imposed on pastoral agriculture	n a	359	335	139
Net assistance to pastoral agriculture	n a	414	346	-33
Effective rate of assistance	n a	41%	20%	-1%

Source: Farming Without Subsidies and SONZA, 1995

The averages in Table 4.2 mask the level of subsidisation that was reached. The maximum level of subsidisation was reached in 1983 where total assistance was \$1,093 million. In that year the SMPs were \$438 million. The ERA in 1983 was 123% and the Producer Subsidy Equivalent was 34%. By 1990 the total level of assistance to pastoral agriculture had been reduced to \$206 million and the ERA stood at -6%, as the manufacturing sector protection had not been removed to the extent that support had been removed from agriculture.

The levels of assistance that were reached on lamb and kiwifruit attracted the attention of the US and resulted in countervailing duties. But the main problem was the contribution that the supports to agriculture were contributing to the fiscal deficit. Following the Labour election the SMPs were removed in June 1984.

It is important to understand the shift that took place in agricultural thinking and hence policy. Rayner states that: "It is difficult to separate the growing realisation that reform of agricultural policies was needed from the movement towards general economic reform." (p.19). The impacts of New Zealand's protectionist policy were originally masked by the commodity boom of the early 1950s. When the boom ended New Zealand's economic problems began to be slowly exposed. "There was no immediate crisis, but rather a gradual accumulation of pieces of evidence that the economy was not performing as well as others in the world nor sufficiently well to meet peoples' aspiration." The evidence was a decline in New Zealand's level of national income per capita in comparison to other OECD countries.

Through the 1970s and 1980s the economic indicators began to worsen; inflation increased, unemployment rose, and overseas debt increased from about zero in 1973 to about 50 percent of GDP by 1984. It was becoming obvious to politicians and the public that unless fiscal deficits were brought under control and the debt reduced, the cost of servicing the debt was going to have a detrimental effect on the economy.

Given that the source of many of New Zealand's problems were rooted in the protectionist policies abroad which New Zealand had little hope of directly influencing, it left New Zealand

to direct its attention to increasing the efficiency of the domestic economy, inefficiencies that were fostered by years of the various forms of intervention and thus protection. The alternative was to reduce the protection and seek ways to increase efficiency. The interventionist "Think Big" policies of government were replaced by the policy to rely on free market forces. Rayner explains that this did not all happen in 1984, as plans were being drawn up and implemented as early as 1979 to assist, or force, domestic industries to adjust to foreign competition. This included the signing of a free trade agreement with Australia.

Farming Without Subsidies has provided a chronology of stabilisation and liberalisation measures in New Zealand for the 1978-89 period. They are contained in Appendix C of this report.

4.3.2 Recent Agricultural Policy Issues

Another source of a review and analysis of New Zealand agriculture to 1993 is R. W. M. Johnson, New Zealand Agricultural Policy Review: 1991-93. Johnson makes it clear that the focus of the government strategy from 1984 on, and hence policy, was to manage the macro side largely through tight monetary and fiscal policies and leave it to market forces to direct the allocation of resources at the micro level. He states that: "The philosophic paradigms of the day are centred on the free operation of markets with minor interference by Governments in day-to-day management or ownership of enterprises. As a result the agricultural sector has to find its appropriate role in the new policy framework by learning by experience and experimentation. The biggest lesson to learn is that government still retains control over the important macro-parameters such as monetary policy, fiscal policy and the exchange rate. The settings of these policy parameters determine the conditions for the conduct of ordinary commerce and trade. The agricultural sector in New Zealand is no exception to this, whatever it was in the past." (p.381).

Johnson provides a review of the agricultural policy agenda in the 1991 -93 period. This will add to and thus complement the chronology of policy changes appearing in Appendix C. The following is a listing of developments in this period.

- The establishment of ten Crown Research Institutes (CRIs), thus making a major change in the organisation of agricultural public sectoral research. In the 1992 Budget \$255 million was voted for science which would be available on bid to Universities and other research agencies. This took the largest part of the research allocation for agricultural research out of the Ministry of Agriculture budget.
- As of 1993 the government had decided not to proceed with the privatisation of the extension service. A change in policy had occurred where in July of 1992 the extension service was reorganised as Agriculture New Zealand to operate as a profit centre within the Ministry. Subsequent to Johnson's review, Agriculture New Zealand has been privatised, being sold to Wrightson's, a commercial trading firm.
- Electricity reform has meant that the rural subsidy on electricity will likely disappear.
- Introduction and implementation of the Employments Contracts Act in 1991. The Act introduces greater flexibility into labour relations by providing employers and employees with more freedom of choice in negotiating their terms and conditions of employment. An analysis by Ellis indicates that at the farm level individual contracts are almost universal and that union membership has almost disappeared. In the meat

industry union membership has fallen and union/plant agreements have been replaced with plant specific agreements, although not in the dairy processing industry.

- Waterfront reform. There has been a reduction in manpower at the waterfronts which has led to increased productivity and reduced costs.
- The Resource Management Act was passed in June 1991. It is designed to promote the sustainable management of natural and physical resources. It will have a major impact on how decisions are made for resource use. Regional and district councils will administer the Act.
- Land rights and Maori land claims. New Zealand has its own version of native land claims, stemming from the Treaty of Waitangi of 1840. It gave the Crown the sole right to purchase land from the Maoris and promised Maoris rights to land would be honoured. There has been a long running attempt to sort out claims and rights and it has had an effect on land and hence agricultural policy. The issue is far from being resolved.
- Review of producer marketing board legislation has been a major area of policy review in an attempt to reform the marketing board role in industry. An extensive report on producer marketing boards was carried by ACIL which is an Australian consulting firm. The study was done for the New Zealand Business Roundtable. In the preface to the final report the Business Roundtable stated that the study was commissioned, "to ascertain whether there is anything special about agricultural products which continues to justify the present extent of intervention. Why is it that deregulation and privatisation, which have worked so well in other areas of the economy both here and overseas, are not considered appropriate for agricultural products?" (p. Preface). Johnson indicates that the ACIL report has received some criticism in being too preoccupied with structure-conduct-performance and for not having enough understanding of the role of marketing boards in reaching end markets.
- There were two changes in legislation which occurred in the period of Johnson's review. These included:
 - * The passage of the Dairy Board Amendment Act in 1992. A number of major changes were made in the way that the government interfaces with the dairy industry. Johnson states that, "The aim of the legislation is to make the Board more independent of government and more accountable to the industry". (p.385) The Act places the government in the role of watchdog as it stipulates that there be five yearly performance and efficiency audits. The Act stipulated further that the cooperative dairy companies are the owners of the Board's capital, but the Act did identify individual member ownership of the capital.
 - * The introduction of the Producer Boards Acts Amendment Bill. The bill grants financial independence to all organisations established under the Primary Products Marketing Act of 1953. This means that these organisations will no longer have to obtain consent from the Minister of Finance to make investments or to obtain loans. It also made changes to the Apple and Pear Board.

- The development of legislation by MAF for pest management, animal welfare, chemical residues and other environmental related problems that affect health of people engaged in the industry and the quality of food.
- Other activities affecting the farm and community sector have involved changes to rural mail delivery which resulted in an increase of fees, and changes to the valuation of livestock for income tax purposes.

Johnson concludes his Review up to 1993 by stating that: "Formal agricultural policies are now confined to matters of hygiene, quality assurance, pest control and animal welfare. These activities becoming more and more identified with better environmental control on production, processing and exports." (p 398).

4.4 Other Structural Changes Affecting Agriculture

Following the introduction of reform in 1984 and the cancellation of all agricultural subsidies it was apparent that the former organisational structure which had evolved to provide policy advice, develop and deliver the programs related to policy decisions was no longer appropriate. One would expect also that reorganisation was also needed to facilitate further changes that were seen to be needed in the new philosophy of government.

Johnson (1994) explains that through 1985 and 1986 a major reorganisation took place of the agencies which were concerned with land, water and forestry. He explains that this was in response to the election promises made to the environmental lobby to separate the policy and delivery functions. The former Departments of Lands, Forestry and the Environment Commission were re-organised into a Department of Conservation, a Ministry for the Environment, a Ministry of Forestry and a residual Department of Lands. Commercial activities in forestry and lands were transferred into state owned enterprises (SOEs) called Forest Corp and LandCorp.

In 1988 the Ministry of Agriculture and Fisheries was reorganised. The nine technical divisions were transformed into four "businesses" and established separate financial control systems with inter-divisional charging.

In 1991 the policy functions were separated from the delivery functions and a new policy unit was created called MAF Policy.

The Ministry had debated how far it could go in introducing charging (user pay). Charging for meat inspection, extension and other services was introduced in 1985. At this time there was no further move to create SOEs. Agriculture New Zealand as the delivery mechanism for extension and MAF Quality Management for inspection remained in the Ministry.

On February 1, 1995 Agriculture New Zealand was privatised by selling it to Wrightson's.

On July 1 1995 a separate Department of Fisheries was created. The name MAF remains but the "F" no longer refers to Fisheries. There was the recommendation that the name be changed to the Ministry of Agriculture and Food. It is my understanding that this recommendation was blocked by the current Minister of Health, Jenny Shipley, as she argued that food has to do with health. Too bad, as it robs agriculture of the important orientation of saying that agriculture must recognise that what it is producing is not just primary commodities, but food. It would thus show that the government recognised the need for

orienting the agricultural industries toward the consumer, domestically and internationally. It would also have been consistent with the government's goal of increasing value added in agriculture. The need of a consumer oriented agriculture has been recognised by New Zealand's agricultural industries. This point was recognised in Canada years ago with the change in name, first I believe, in Ontario (OMAF), other provinces and eventually at the federal level with AAFC.

SECTION 5

EVALUATION OF REFORM

5.1 Introduction

The purpose of this section is to provide a general evaluation of reform in New Zealand as it relates to the economy in general and the agricultural sector in particular. The focus is on those questions and issues that relate to economic analysis and policy. The specific questions that are dealt with include:

- does the current system efficiently and effectively provide the kinds of information required for informed policy debate and development (both inside and outside of government)?
- does the relevant information get to all stakeholders who require it? Identify the key stakeholders/clients outside of government.
- what are the significant gaps in the ability of the current system to supply the kinds of information required now and into the future and what are the implications of any shift in the policy agenda away from a traditional commodity/support focus?
- has there been a decline in the policy role of agricultural economists?

5.2 Assessment of Reform: The Substance

There is little question that overall reform in New Zealand was overdue given the state of the economy in terms of indebtedness and economic growth. There is no purpose to document this point as it is well established in the literature. However, a few points should be made.

New Zealand set out in 1984 with the new Labour government to gain control over the economy. The goal was to bring spending in line with revenue, to eliminate deficits, bring down the debt and reduce the level of inflation. To do this the government made the Reserve Bank independent of politicians. Since 1990 the Reserve Bank has had complete control over monetary policy. The main responsibility of the Bank is price stability. The government has set the inflation target at 0-2 percent. As The Economist reports, inflation targets provide transparency and accountability. The Economist states that New Zealand now probably has the best fiscal and monetary policy framework of any country in the world." (The Economist, October 7, 1995)

The CPI which increased by 13.3 percent in 1985, 13.1 percent in 1986 and 18.2 percent in 1987 was reduced to 0.9 percent in 1993, 1.3 percent in 1994 and 4.0 percent in 1995. Public overseas debt was \$31.3 billion in 1985. This has been reduced to \$15.6 billion in 1995. Public debt as a percent of GDP is still 31.0 percent (Canada's is 64.2 percent). However, government spending as a percent of GDP is still high at 38.2 percent (Canada's at 25.8 percent).

The Fiscal Responsibility Act (1994) provides principles for responsible fiscal management. The aim is to encourage fiscal responsibility in government behaviour through an open and transparent budget process. More of the details are summarised in the Canadian Auditor General's Report.

Before leaving the issue of how reform affected the role and the efficiency in government it is useful to briefly examine the pattern of government revenue and expenditures. These are outlined in Table 5.1 for selected years. The Table shows that government expenditure increased significantly in nominal terms up to 1984, the year of major reform under the new Labour government, but continued to rise even after reform. The key difference between before and after 1984 has been the slowly improvement in the financial balance. In 1994 the government achieved its first positive financial balance of \$424 million and an operating surplus of \$755 million (not shown). For 1995 the operating balance has been estimated at \$2,695 million and projected at \$3,600 million for 1997 by Berl Consulting Group.

The Table 5.1 row Table 2 Surplus indicates total government cash revenues less total government such expenditure. Conceptually, it is the government using cash to purchase (or sell) assets. In 1989 there was a surplus of \$1,733 million. This included the sale of Post Bank (\$678.5 million), Air New Zealand (\$660 million) and Rural Bank (\$550 million) to name the most important sales of government assets. This was a sharp contrast to 1984 when the government had a \$3,101 million deficit in this account.

Table 5.1 figures are in nominal terms. If they are deflated by the CPI it shows (not shown in the Table) that real government expenditure has not changed much between 1984 and 1994. What has changed has been government revenue which has generated the improving account balance. This observation coupled with the additional fact that the government after 1988 and in particular between 1989 and 1992 sold off a very large percentage of its assets further would cause one to question the efficiency gains with reform in terms of government operations.

It brings into question whether the New Zealand government after reform has in fact been more efficient. Has it in fact been able to eliminate waste inside government that has been attributed to New Zealand with reform?

This study cannot hope to fully explain the changes that have taken place since 1984. The main answer to these questions must be based on examining the structural changes that have taken place on the expenditure side.

The first stage of reform after 1984 was taken up with the reduction of transfer payments, but this was offset by rising interest rates coupled with increasing debt. In the second stage of reform after 1991 the government attempted to reduce welfare commitments but this was offset by rising unemployment and thus the need for greater payments. One of the main areas for improvement in expenditure is with the cost of debt servicing. For 1992 this was \$6.2 billion. It declined to \$4.3 billion in 1993 and to \$2.9 billion in 1994. It is forecast to remain about \$3.2 billion for the next three years.

On the revenue side taxation revenue increased from \$23.9 billion in 1992 to \$27.7 billion in 1994 and to \$30.2 billion in 1995. Another source was the fact that the SOEs were starting to pay dividends to the government.

Possibly the efficiency gains from reform in terms of the economy should not be confused with efficiency gains of the bureaucracy itself. This issue however will have to remain largely at the hypothesis stage for the purposes of this study.

The philosophy of the reform process has been to have government establish an emphasis on the macro side of the economy and to leave the micro side to the market. The government has attempted to extricate itself where ever it can from interference in the day-to-day running of the economy. It has followed a policy of privatisation and commercialisation. It has attempted to reduce regulation wherever possible.

The several industries that were interviewed were in full agreement with the reforms which have been undertaken. Federated Farmers Inc., to the extent that it represents farmer opinion in New Zealand, is also supportive of the general thrust of reform. It wasn't clear at the time that subsidies were eliminated in 1984 that farmers and agriculture would be better off. In the same year about 40 percent of the income of beef and sheep farmers came from subsidies. With the 1985 devaluation, the \$NZ rose, interest rates climbed, and agricultural prices fell in 1986 and 1987. Farm stock value fell along with land prices. But initial fears of farm failure did not materialise and only 800 farms faced forced sales. Some exit assistance was provided.

Table 5.1
Government Revenues and Expenditures, Selected Years 1975 to 1994
(\$ million)

Item	1975	1979	1984	1989	1994
Expenditure	3,411	6,848	14,250	23,741	29,174
Revenue	3,454	6,151	11,974	22,787	29,598
Financial balance	43	-697	-2,276	-954	424
Table 2 surplus	-390	-1,446	-3,101	1,733	739
CPI (1960 = 100)	223	379	692	1,188	1,370

Source: Tables developed by Paul Dalziel, Lincoln University, based on Government of New Zealand Financial Statements

When the subsidies were ended the cost of farm inputs came down, partly as a result of reduced protection for the manufacturing sector and due to the oligopolistic selling of suppliers. As Federated Farmers report: "Previously those supplying farm inputs including labour, contractors, processing and the like, gained much of the benefit of subsidies. They knew the farmers had the money to pay, funded by the tax payer, and charged accordingly." (*Life After Subsidies*). This ended with the end of subsidies; input prices fell as farmers also slashed their expenditures.

Federated Farmers state that prior to reform in 1984, most agricultural sector organisations put most of their effort into seeking various types of government support. This has now ended and Federated Farmers is now committed on behalf of farmers to advocate that reform be applied to other sectors of the economy to make them as efficient as the agricultural sector. The emphasis is now to further reduce costs in the agricultural sector. Federated Farmers sees that farmers have become more resilient and in charge of their own destiny. It has not meant the end of the family farm. The organisation states that there is a good life after subsidies.

The key question is still the one that was posed in Section 1 (see also Section 6.7) of the report, which was, “what are the appropriate role(s) and responsibilities for the government for the future development of the agricultural industry?” It would appear that Federated Farmers see the role of government to manage macro policy to provide the best climate for business in terms of stable input prices, low interest rates, low levels of taxes, and actions that will lead to the further reduction in production and marketing costs. That is, the government’s role is to work toward greater efficiency and effectiveness for the agricultural industry.

A similar view seems to be held by industry. Industries as represented by the main agricultural Boards (i.e. Wool and Dairy) are looking inward for reforms and increased efficiency and effectiveness. Implicitly the policies that they are following are those of a transactional cost paradigm. They see the need to focus on the consumer and the market, and to develop the mechanisms to provide vertical system coordination back to the producer. They are strong supporters of research and development and technology transfer. What isn’t clear is if they see the government as a full partner in working toward industry effectiveness and efficiency. They see the government providing funds to support research, setting standards of quality and monitoring but not necessarily doing the inspection, and working toward eliminating trade barriers internationally.

It is not clear what role industry sees for government in contributing to sustainable agriculture in terms of resource management. It is also not clear if industry sees government playing a role in improving the quality of rural life and community stability. It is also not clear to what degree industry fully understands the need for improving vertical system coordination and the role that government can and needs to play in this area.

5.3 Assessment of Reform: The Process in Terms of Economic and Policy Analysis

The evaluation of how reform has affected economic and policy analysis and delivery is based on several approaches. The first will be to review what is in the current literature. The second is to summarise the assessment of the issue as based on interviews with government, industry and academics. The third approach is to invoke a modified information paradigm and to attempt apply it to questions for policy analysis.

5.3.1 The Literature

(a) R. Johnson¹

His analysis of the policy process is particularly interesting and useful as it contrasts how economic and policy analysis was carried out and delivered in the period prior to the introduction of contracting in government. The title of his Presidential Address was The National Interest, Westminster and Public Choice. “The objective of the paper was to analyse changes in New Zealand agricultural policy over the last twenty years from the standpoint of public choice and administrative theory and to draw general conclusions. Particular attention will be paid to the role of agricultural economists in government and the role of information in the political and administrative process” (Johnson, p.2)

¹ In his Presidential address to the Australian Agricultural Economics Society in Wellington, on February 8, 1994 Dr Johnson provides his assessment of not only agricultural policies in New Zealand but the policy process itself.

As has been previously described, the State Sector Act(1988) established a new framework for the relationship between heads of Departments and their Ministers in terms of a contracts approach. The contractual relationship specifies what the department is to deliver as outputs in terms of the purchase agreements and the performance agreements specify the quality dimensions of the outputs. One of these outputs is policy advice which all departments require. Johnson reports that there has been some concern over whether government gets “good value for its money”. He explains that the State Services Commission carried out a review in 1991 which concluded that the conflict that Ministers face in trying to reduce costs yet obtain advice, result in the purchase of more policy advice than is required. A possible approach advocated by Treasury was to introduce the market mechanism as a solution; putting more of policy advice out to tender. Johnson states that, “However, difficulties arise with Ministers, there are confidentiality considerations, and transaction costs could be considerably higher. Treasury has, therefore, turned toward an internal rules approach which concentrates on improving production and quality control processes, adopting a corporate planning approach including a fiscal cap, better specification of policy advice outputs, and better pricing of outputs.” (p.18)

When it comes to monitoring the performance of Chief Executives much of the responsibility rests with the State Services Commission however it is done in consort with the Minister. Under section 43 of the State Sector Act it states: “43. **Review of performance of chief executive** - (1) The Commission shall be responsible to the appropriate Minister or appropriate Ministers for reviewing, either generally or in respect of any particular matter, the performance of each chief executive. (2) In carrying out its functions under subsection (1) of this section, the Commission shall report to the appropriate Minister or appropriate Ministers on the manner and extent to which the chief executive is fulfilling all of the requirements imposed upon that chief executive, whether under this Act or otherwise.” (State Sector Act, p.22). This is somewhat of a departure from the Westminster model where the Minister would have more of the responsibility for the performance of his Department Head or in this case Chief Executive. However the New Zealand model of management has led to the development of a much more explicit relationship between the Minister (government) in terms of responsibilities and performance than under the current Westminster system in place in the United Kingdom.

The Public Finance Act(1989) provided for the improved financial management in support of the objectives of the State Sector Act. The system would be based on accrual accounting replacing the cash flow system. Johnson says that: “This system thus provides for comparative costs of purchasing policy advice both within and without government” The reforms stress administrative performance rather than quality of policy advice. They also force departments to become leaner and meaner because they have more control over the delivery of outputs. They increase the flow of management information possibly to an excess. But, they do little or nothing for improved quality, relevance and supply of information to all interest groups.” (p.20). As Johnson explains, groups like the Federated Farmers change their strategies from extracting favours from the political system to extracting returns from the market place. This is not necessarily a bad thing. But taken to excess it could lead to having groups like Federated Farmers begin to ignore the role that the government should be playing for the development of an efficient and effective agriculture.

Johnson states that: “Free and frank advice is at the heart of the Westminster system”. He says that the State Sector Act alters the relationship between Minister and chief executive. He explains further that the purchase and performance agreements for monitoring outputs may formalise the relationship probably to the detriment of the Minister receiving frank policy

advice that is not in any way related to the process of accountability. “This form of agency theory could drive a wedge between a Minister and his or her own department, where Westminster theory holds the two to be indivisible.” (p.24).

In looking specifically at the effects of reform in general and the specifics of administrative reform in agriculture Johnson comes to several conclusions. These tend to be consistent with points being raised elsewhere in this study. They are in summary form:

- one of the main effects of assistance reform (meaning a lessening of concern for micro policy intervention) and the dominance of macroeconomic policy meant the reduction of the power and importance of periphery departments like agriculture and a concentration of power in the Treasury and the Reserve Bank.
- the application of the separation principle of policy (program) development from delivery has resulted in the case of the science function improving on science (research) activities but “left technology transfer a poor orphan”. (p.23). As raised elsewhere in the report it is not yet clear what privatisation of extension will mean for good technology transfer in the agricultural industry, and in particular farmers.
- the new process is likely to result in increased staff in Ministers’ offices. Where the direct line of policy advice is affected by the new managerial system Ministers will turn to in office staff for political and other policy advice. Policy advisers in the department will be at greater arms-length which will favour a policy unit in the office that is more directly responsible to him or her.
- the tendency toward less direct intervention will result in economists working more on institutional structures, legislation and monitoring systems and less on interventionist mechanisms. In examining the changes with respect to the resource use under the Resource Management Act and the process of reform of marketing board legislation Johnson is concerned that: “current reforms have tended to reinforce the private interest view of self-determination and decentralisation.” “These changes do not go far enough in preserving some authority for central government.” (p.25).
- on the role of information, Johnson stresses that equality and access to information is a vital ingredient to good policy making. He sees government being a provider of information especially where market failure exists and this would help to balance the power of different interest groups through increased transparency. It is his observation that departments have actually reduced the size of their information departments. In MAF the information department was disbanded and the distribution network privatised. He concludes that the role of information as a public good has been overlooked. Information is critical to the economic research activity of a department which means that the information gathering, storage and retrieval system needs to be well developed. This has to be closely coordinated with the policy advice function. (See section 5.4 information/decision paradigm)
- there has been a reorientation of economic analysis in agriculture away from the farm level. Economic analysis has been retained for international trade, but this was because of the GATT negotiations. There is a tendency to see policy matters as technical matters and, “The outcome is likely to be a decline in the role of economists and of economic research in the Ministry”. (p.26).

- Johnson concludes that the role of and importance of the agricultural bureaucracy has been lessened because general government reform has been directed to less government intervention.

In interviews with Dr Johnson, he stressed that Minister's staff numbers have not increased as much as was first thought, and the Westminster system continues to have a wide influence on policy development and acceptance. He expressed some surprise that staff numbers in Agriculture Policy were maintained at such a high level, without a considered and focused research component.

Dr Johnson stresses the wide public belief that government should generate its own advice within the traditional confidential Westminster arrangements.

(b) Jonathan Boston

Jonathan Boston is Associate Professor of Public Policy at Victoria University in Wellington. In recent years he has published widely on such issues as aspects of social policy, higher education policy and public sector reform as well as moral theology. Recent works include Reshaping the State (co-editor, 1991), Voices for Justice (co-editor, 1994), The State Under Contract (editor) and Public Management: the New Zealand Model (J. Boston, et al.) forthcoming 1996.

For the purposes of this report we are particularly interested in his analysis and views on contracting in government, especially contracting out of policy advice. Two sources have been used to provide insights on his perspective and conclusions.

In Chapter 4 "Inherently Governmental Functions and the Limits to Contracting Out", The State Under Contract he examines the extent to which government has gone in contracting out its functions. He states that in New Zealand consultants are being used increasingly to formulate policy advice and to provide other related policy advisory services. He says that in certain cases ministers are employing consultants to advise on their strategies for purchasing departmental outputs. He raises these questions: "whether there are certain public functions which only government employees should carry out? Does the integrity, legitimacy and even perhaps the sovereignty of the state necessitate that certain distinctively public functions should never be contracted out to private providers?" (p.79).

Boston feels that to date these issues have not been examined or adequately debated in New Zealand. He says that they have received more attention in other countries, in particular the United States. He makes reference to an investigation in the early 1990s by the General Accounting Office (GAO) in the United States of contracting out of functions which in its opinion were inherently governmental in nature. The GAO was critical of the extent of contracting out and called for guidelines on those functions of government that should not be contracted out.

He reiterates the point that it was the Public Finance Act(1989) and the introduction of the output system of appropriations that gave a boost to contracting out. In this system outputs are more clearly specified including policy advice.

He indicates that the government purchased \$245 million of policy advice from 32 departments in 1992/93 excluding the cost of diplomatic services. Out of this departments spent \$48.5 million in contracting out to third parties. He adds that government gets

additional policy advice for free through royal commissions, from academics, conferences etc. He points out that certain departments make a more extensive use of consultants than others; agriculture was not one that he named. An important area for the use of consultants, by Treasury and other Departments was for the valuation and setting strategies for the sale of government utilities. This suggests that some of the necessary analytical skills have not been retained or developed in the government Departments.

Boston examines the argument which has been made for in-house versus contracting out of policy advice. He bases his analysis on agency and transaction cost theory. His conclusion is that: "Broadly speaking, there are likely to be significant advantages, in terms of minimising both production and transaction costs, in placing a heavy reliance on in-house provision. This certainly does not mean that all advice should be produced in-house, but it suggests that there are likely to be benefits in having an in-house advisory capacity across the broad spectrum of policy issues." (p.97). He is particularly concerned about the problem of assessing and monitoring quality of policy outputs. He feels that the measures employed in New Zealand to assess quality of policy advice are only proxies, and thus only indicators of quality.

One of Boston's main arguments for an in-house capability is that Ministers are not able to specify in advance the policy advice that they need as Ministers hardly know the problems they are likely to face next month, let alone next year.

(c) Jane Kelsey

Jane Kelsey, in her recent book The New Zealand Experiment, A World Model for Structural Adjustment, 1995, raises similar questions about the inadequacy of monitoring and evaluation procedures. She makes reference to an audit carried out by the New Zealand Auditor-General in 1994 which, concluded that many departments failed to meet sound management standards in awarding, monitoring and evaluating contracts, while inadequate documentation made some contracts impossible to assess (p.143). In making reference to the New Zealand Auditor General's report she states that: "Too little thought was given to the choice between developing in-house skills or using private consultants." (p.143).

(d) Ralph Chapman

In an article in Public Sector, Vol. 18, No. 2, June 1995, Ralph Chapman who is currently serving as Manager, Strategic Policy, Ministry of the Environment, examines the current deficiencies in and the potential for improving the links between outputs and strategic outcomes sought by government in New Zealand. He further examines the related difficulties in evaluating policy and in conducting policy related research in support of high quality policy analysis.

He presents a model (not shown) that is not that dissimilar to the information/decision paradigm as contained in section 5.4 except that it doesn't incorporate the input side. It does, however, illustrate the importance of monitoring and evaluation and investing in strategic result areas. He raises similar concerns with the current process that Ministers are not familiar with the implications of their purchased outputs and the outcomes they seek. And Ministers have not articulated their own views about the values and goals they seek in advance. He feels that Departments face difficulties in delivering outputs where there are complex social and environmental problems and where there is an inadequacy in understanding and analysing these problems. He quotes the State Services Commissioner: "we have yet to establish a method to determine whether and how the outputs contribute positively to the stated outcomes." In his

portfolio, Chapman is concerned with the quality of the policy analysis and thus advice. He states that, "A contributing factor is under-investment by Ministers and CEOs in staff development, due in part to fiscal constraints and also to managers being under pressure to deliver outputs."

Those interviewed in agriculture who have had a long association with MAF have expressed the same concerns. My own impressions are that the problem is augmented in agriculture when it comes to economic and policy analysis because, although the analysis is economic, none of the upper level managers from the Chief Executive to the Group Director of MAF Policy are economists. This problem can be overcome if upper management is careful to seek the advice of their divisional directors in terms of the time and staffing required to deliver on the outcomes desired and outputs specified. In the case of MAF it would appear that this has been neglected in the face of pushing through its institutional reforms (which have been of major importance in terms of staff numbers and morale).

(e) Other sources

There are obviously other literature sources on the subject of the effect of overall reform and reform to the internal workings of government which have not been cited. Colin James in New Territory: the Transformation of New Zealand 1984-92 provides an interesting perspective on how New Zealand moved from the "prosperity consensus" which it had reached in the period of the 1950's to 1970s to a new radical restructuring of not only of the economy but public attitude and expectation. Although he talks of administrative failure he does this in a more general way and thus does not get to the heart of the issue of the appropriate role of government and how it should manage and be managed. He states that "governments should intervene in markets only to ensure fair play and to correct market failure".(p.311). He does not attempt to outline what he means by market failure.

A more current assessment of reforms in New Zealand is Economic Reforms in New Zealand (forthcoming) edited by Alan Bollard, Ralph Lattimore and Brian Silverstone. The authors here explain James's "prosperity consensus" as the "golden age" which emerged after 1945 and lasted until the late 1960s and early 1970s. Given the high rates of economic growth, low levels of inflation, there were attempts to redistribute income. "These policies incorporated increasing government intervention to provide social security and other programmes to deal with apparent market failure." (p.6) The new book attempts as stated in the Introduction, "to study the impact of New Zealand's reforms in a detailed and integrated way". (p.14).

5.3.2 Evaluations Based on Interviews

(a) Industry

As outlined in Section 3 on the responses to the question of the adequacy of policy advice in agriculture, most industry spokespersons did not see that there were any major gaps in economic and policy advice at least from their perspectives. It is my impression, however, that their perspective was for a government that was now seen to play a quite limited and selective role in the agricultural and food sector. Macro policy would dominate micro policy, and the former was the domain of Treasury and the Reserve Bank. There were areas, however, where the government did have a role; in trade and establishing quality standards and monitoring the regulation of quality, to name the two most important.

Because there was little interaction between MAF Policy and industry in terms of industry requesting economic and/or policy analysis industry spokespersons had little basis to comment on the quality of outputs and hence the quality of staff in MAF.

Almost all those interviewed felt, however, that MAF and government in general required an in-house capability to deliver policy advice. This in part I suspect was based on their own point of view that industry (i.e. firms and agencies of industries) required their own in-house, thus dedicated, economic and policy capability. Also everyone understands the convention that policy advice is confidential to Ministers.

(b) Government

Here it is important to also recognise the need to protect the confidentiality of those expressing opinions on the issue of the system in place as well as the quality of economic and policy advice being produced.

A general conclusion that can be drawn is that the current demand for economic and policy advice in MAF is not high. There were several who raised questions of the quality of economic and policy advice being provided. There were a number of statements made by people at all levels both inside and outside of MAF, that contributed to this assessment. These were:

- that over the last several years the quality of staff in Agriculture Policy has deteriorated. This is based on the fact that the unit has not replaced economists that held Ph.Ds. There are now very few with graduate standings. Salaries are not competitive with industry to attract good quality graduates. There is little in the way of assistance for upgrading and maintaining professional competency. Much of the work that is required is not sufficiently challenging to require rigorous analysis.
- MAF lost its good quality middle management/professional people to other Ministries and have not replaced them.
- that MAF Agriculture Policy is not really doing “research” but concentrates on day-to-day responses with a heavy load in the legislative area.
- too little opportunity for middle management to provide input into the decision making in terms of establishing priorities for policy and economic analysis and for determining the capability of delivering the outputs in the Purchase Agreement. Some felt that the 1995 Purchase Agreement was prepared too quickly with some indication that the planning schedule was not followed. In some respects the Purchase Agreement was loosely worded and statements that would have described the analytical function were missing.
- the view that policy work cannot be encompassed in a purchase agreement and that existing agreements are dominated by ‘top down’ procedures.
- if there is any rigorous work on trade policy being done it is being done in MFAT. The outlook group in MAF have used production models but not trade models for the preparation of information for the trade area.

- there is a difference of opinion on how well the contract system is working. Generally upper management thinks that it is and lower management is more skeptical.
- leadership in MAF has been dominated by institutional reform at the cost of clear lines of communication for policy advice and analysis. In addition the likelihood that administrators don't fully recognise the difference between analysis and advice and the added problem that this distinction has not been clarified.

(c) Opinions from outside of government

A general opinion that there are problems with the delivery of economic and policy advice in MAF. This is based on the opinion that the quality of professionals has deteriorated in MAF in recent years.

Opinion that MAF analysts need to be put in the mainstream of policy advice. They were at one time, but not now. Disagreement over the splitting of the development of policy and its delivery.

Dr Elliott is on record of expressing the opinion that there needed to be a mix of disciplines in MAF Policy to include sociologists, political scientists along with economists. That is, policy making must look at the issues from different perspectives. He is on record of saying that there is a need for leadership in MAF that understands the cultural values of agriculture and agriculture itself.

5.4 Evaluation Based on Information/Decision Paradigm

One approach to evaluating the appropriateness of the system that is now in place to produce economic and policy analysis, is to approach it in terms of an information/decision paradigm. A simple conceptualisation of this model is shown in Figure 5.1. Many will recognise it as the Bonnen model of information theory. It has been modified to incorporate the elements of the outcome/output components of the contracting system.

The purpose of the model is to focus on the realisation that outcomes are a function of good decision making which is a function of producing the right information. Another reality is that the system is dynamic and there has to be feed back in terms of the results that are achieved. The evaluation process must be able to assess the extent to which goals as outcomes were achieved in relation to expectations. If there is a gap between the ends achieved and those expected there has to be an assessment made in terms of the future. Are goals and thus outcomes reassessed or is the process static? As Boston and others have stated it is difficult to determine what constitutes quality when it comes to policy advice. The same holds for producing information on which decisions have to be made at the ministerial level.

The core component of the decision model begins with the identification of problems and issues that require resolution. These have to be seen in terms of the goals that are set in relation to government policy, that is the outcomes that are established as objectives. These must come through the political process and are thus based on input from the electorate and various organisations that are able to influence public policy. It is the responsibility of the Minister (or Cabinet) to articulate the outcomes directly or through the Chief Executive so that the analysts are able to begin to apply the appropriate research framework to eventually produce information as outputs for appropriate decision making.

The more difficult the problem the greater is the need for good analysis. This starts with conceptual and theoretical development. The model shows that there are three components to analysis; theory, methodology and data. The model illustrates that the methodology coupled with theory creates a demand for data as input. Data collection is critical to the analytical process. The products as outputs are the information that is an input to decision making. The model clearly distinguishes between data and information. Based on information, decisions can be made to generate the outcomes as originally specified.

It is after decisions have been made and where results can be observed that evaluation should occur. Evaluation can only appropriately be made against the outcomes achieved in relation to outcomes that were established a priori. The model illustrates that the quality of the analysis and hence results in terms of information is dependent on the inputs made by decision makers and in the case of policy analysis the professional/research staff.

The purpose is to attempt to explicitly show that the contracting process of developing purchase agreements and performance agreements has to take into account the quality of the model required to generate the information as outputs. This model helps to make clear the various concerns that have been raised (as previously discussed) about how economic and policy analysis is being carried out in MAF at present.

5.5 Summary and Conclusions

It appears that the information requirement of the policy process are being fully met by informal research activities of policy analysts and consultation with interested parties. The New Zealand model of the Westminster style of government does not appear to encourage wider informed policy debate, or sharing of views before a decision is taken. At times conference style consultations have been employed in New Zealand but less frequently in recent years. The last major conference held in agriculture was in 1963.

The State Sector Act (1988) identifies the main stakeholder for information as government itself. The public information role of departments has decreased (as Johnson points out). Industry sources interviewed stressed their self-sufficiency in supplying their own information needs for economic and policy analysis. However it is Johnson's opinion that industry has been consulted more than they seem to have indicated.

The amount of research backing agricultural policy research has declined over recent years. Dr Johnson suggests that the amount of such research has never been at the level taken as normal in Agriculture Canada or the USDA(ERS). MAF devotes considerable staff resources to its commodity outlook function and the necessary research support needed, but does not appear to have evaluated or set out a longer term strategy for supportive research of its various responsibilities in terms of the outcomes that have been delineated.

The system that is in place does not appear to adequately or clearly distinguish between the analysis and advice components of policy.

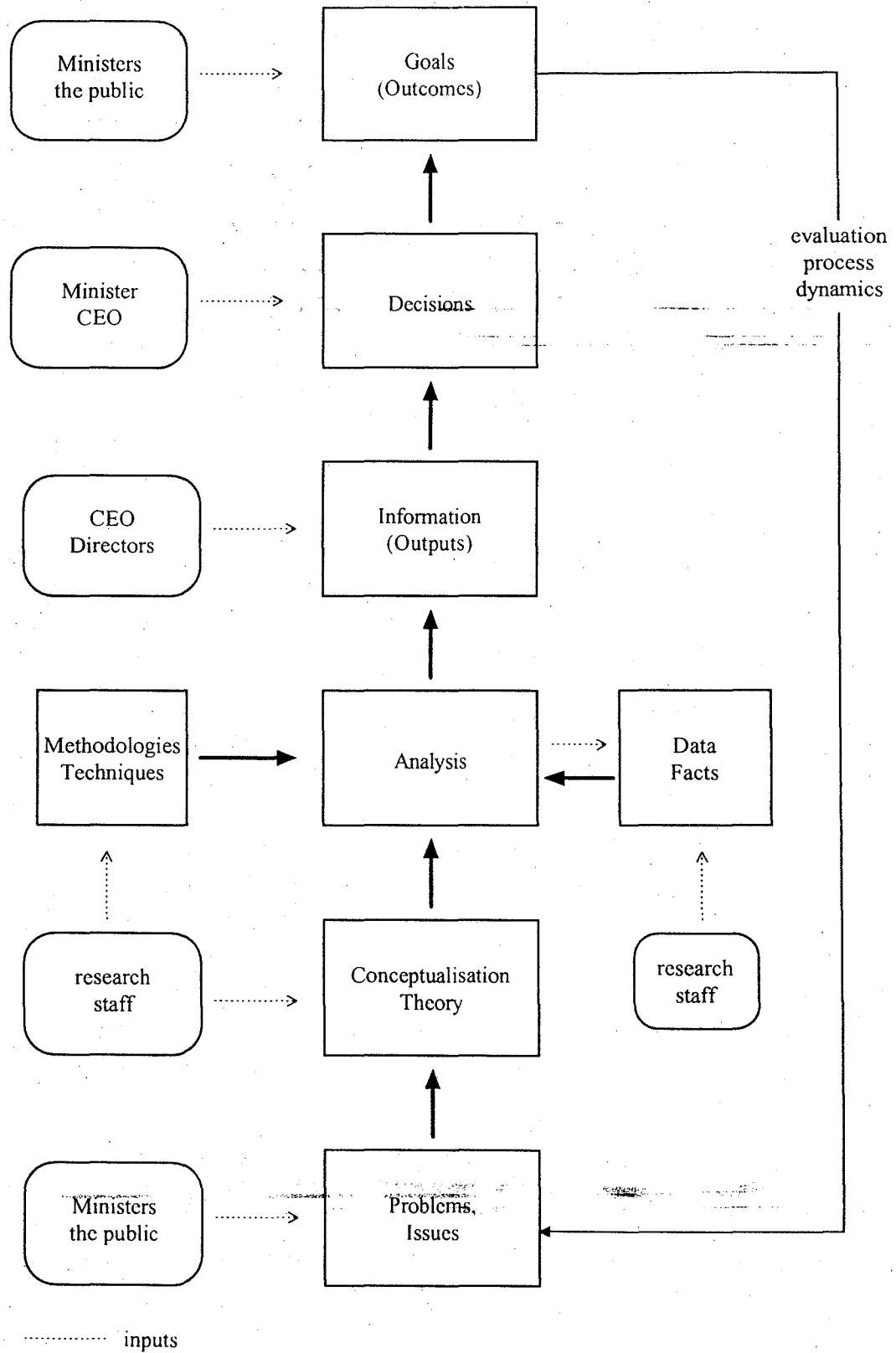


Figure 5.1
Economic and Policy Information/Decision Paradigm

SECTION 6

LESSONS TO BE LEARNED FROM REFORM

6.1 Introduction

The purpose of this section is to examine what can be learned from the reforms that New Zealand has made since 1984. The focus is on the changes to the roles and responsibilities that government has taken to the economy. In particular the focus is on how the government has reorganised its bureaucracy to deliver those goods and services that it sees are its mandate in the area that requires economic and policy analysis. The specific questions that need to be addressed include:

- what are some of the key lessons that government and analysts have learned over the last decade in terms of how to fund and supply economic and policy analysis?
- to what extent has commercialisation/privatisation played a role in New Zealand's reform of how economic and policy analysis is carried out and what have they learned from this?
- what lessons can Canada and AAFC take from the New Zealand experience on how government (and other stakeholders) obtain the information and analysis and for informed policy development?
- what lessons are there for Canada as it deals with the restructuring of how AAFC obtains its analysis and tries to meet the needs of other stakeholders for information (i.e. provincial governments, farm organisations, the environmental community, agri-business firms, other nations etc.)?

These are all pertinent and important questions, however, they are difficult questions. As was discussed in previous sections, the system and the process of delivering economic and policy analysis, as are other functions of government, and still evolving. The managerial system that has been adopted by government was only started to be seriously debated. The biggest problem seems to be that there has been limited analysis on the current managerial system and its performance to provide substance to the debate.

It is important to recognise that the equivalent of provinces with their own jurisdictional powers over agriculture and trade do not exist in New Zealand as they do in Canada. Government in the New Zealand sense largely means the national government. Local government does have certain jurisdictional powers but they tend to be minor in relation to the power and thus responsibilities at the national governmental level. This observation, however, probably requires further investigation.

As was outlined at the beginning of the study it is critical for the determination of economic and policy advice in government to determine the role that government is to play in future. The lessons to be learned from the reform process in New Zealand must in the final analysis be evaluated against what is first determined for the role of government under reform in Canada. In ending the study a perspective is provided on what the role of government should be.

6.2 Lessons Learned for Funding Economic and Policy Analysis in New Zealand

- Given that the government sees its roles and responsibilities largely in the area of macro economics it is understandable that policy analysis is concentrated in The Treasury. Treasury employs about 200 policy analysts and managers which constitutes about 15 percent of the government's expenditure on policy advice.
- The emphasis on policy advice in the area of the Treasury has meant that the best qualified economists (based on the level of education) from MAF moved to Treasury. They have not been replaced in MAF and this is likely to have partly affected the type and quality of economic and policy analysis that is being carried out in MAF at present. Other reasons are provided below. This conclusion is lent support by a recent statement made by Dr Russ Ballard who has just finished a term of over six years as the CEO of MAF. He was largely instrumental in the restructuring that has taken place in MAF as previously outlined in the report. In the March 1996 issue of MAF Update Dr Ballard expressed the opinion that turning MAF into a customer driven organisation was a good decision but felt that the large amount of resources being channelled into front line output would eventually adversely affect MAF. He is then quoted as saying: "I hope that there's an opportunity to re-examine the amount of output the Minister expects this organisation to deliver. I believe we're already too lean. We don't have the money to invest in staff training and internal info-structures. You can keep this up for a while, but then your quality is going to start to slip." (p.1).
- Although economic and policy analysis is seen as an important function for government, and given that agriculture represents about 60 percent of export trade earnings there remains a focus on trade analysis in MAF. However, it would appear that the serious trade analysis is being done in the Ministry of Foreign Affairs and Trade (MFAT). Much of what is done in the area of trade in MAF is to monitor and report on agricultural and policy developments internationally. The Department has not developed any empirical model to analyse trade issues. It does not appear to have the resources to do this and this work does not appear in the Purchase Agreements. Agriculture provides input to the analysis being carried out in MFAT. MAF's role is to provide the commodity expertise and not the trade modeling expertise. Outlook work is the sole preserve of the MAF. Its forecasts are based in part on the use of econometric models.
- The emphasis in government for reducing costs coupled with the new managerial approach that has evolved out of the State Sector Act (1988) and Public Finance Act (1989) have probably affected the quantity and certainly the quality of economic and policy analysis that is being produced in MAF. This is in part based on the hypothesis that the decisions made by the Minister and CEO in terms of what outputs are required and their quality in relation to outcomes desired have resulted in too little attention being paid to the professional staffing in Agricultural Policy in MAF and in part, by a heavier load of legislative work arising from the Resource Management Act and the regulatory agencies (bureaus).

6.3 Role of Privatisation and Commercialisation in the Delivery of Economic and Policy Analysis Under Reform

- Policy analysis is still largely provided from in-house established policy units in government departments. Total government expenditure on policy advice has been estimated at \$245 million for 1992/93. This translates into 1,220 person equivalents. Based on a 1994 report by the Auditor General's Office \$48.5 million was the cost of advice contracted out to third parties, and little of this is the area of agriculture.
- The issue of the role of privatisation, and hence commercialisation of policy under reform is not an issue in New Zealand. It is an issue for which it is difficult to provide supplementary quantitative analysis. The literature provides arguments on all extremes. The arguments are still largely conceptual and theoretical which makes it difficult to determine the optimal balance between in-house and contracting out of policy advice in particular. If one draws a distinction between economic analysis and policy advice then it is even less clear what the conclusion should be. On privatisation, the literature is primarily focused on policy advice as distinct from economic advice. In the New Zealand case, the accepted view is that confidentiality requires internal policy staffing.
- Evidence is that the academic community is at present playing a limited role in research for government in economic and policy analysis. In the days of greater government intervention prior to 1984 this role was greater at least based on the experience of the AERU at Lincoln University (see section 4). At present MAF has few contracts with the academic community for either economic and/or policy analysis. In talking to several people about the relationship between university and government there would appear to be little tradition in New Zealand for the type of collaborative and level of contract work that exists in the North America.

6.4 Lessons Learned from Privatisation and Commercialisation for Economic and Policy Analysis

- There has been a limited amount of privatisation in how economic and in particular policy analysis is being carried out in New Zealand. All those who were interviewed in MAF and The Treasury and asked about the issue of privatisation were quite clear that full privatisation of the function of economic and policy analysis was never seriously considered in the process of reform.
- According to Boston government departments are prohibited from selling their services to non-governmental clients. The government is the sole purchaser of departmental policy outputs. From MAF some outputs such as the outlook report (SONZA) which are provided to industry but this output is merely an offshoot of what the department produces for internal needs. SONZA is sold on a cost recovery basis. MAF currently uses private consultants (who were the former extension agents of government) for the collection of some agricultural data.
- It is unlikely that a privatised government agency in the area of the agricultural sector could find a market for its services except for the occasional study that agricultural agencies contract out. This conclusion, however, should be taken as tentative as it is

based on a limited sample of industry contacts, but those industries that were interviewed tended to represent the main industries in agriculture. Those that were interviewed, said that they would not buy services from government and this would probably include a privatised MAF Agriculture Policy. I am not aware, however, of any survey that has been carried out to determine the demand for economic analysis or policy analysis in the agricultural private sector.

6.5 Lessons for Canada and AAFC on How Government and Other Stakeholders Obtain Economic and Policy Analysis

- Many of the main agricultural sectors (industries) in New Zealand have developed their own in-house economic and policy units. Some, however, already had their own economic units prior to 1984. There is virtually no reliance on government economic and policy analysis for their needs. There is also little indication that these units purchase economic analysis (or policy advice) on a regular basis from outside their units. It must be noted that to industries policy analysis largely now means analysis for the development of policies for firm or industry strategic planning, rather than policies for influencing government.
- There is no indication that industry and government have even seriously discussed cooperating in carrying out economic analysis which they both require or for MAF to do economic analysis for industry.

6.6 Lessons for Canada in Restructuring of How AAFC Obtains its Analysis and Attempts to Meet the Needs of Other Stakeholders

- If Canada were to look to New Zealand as a model to reform its economic and policy analysis and advice it would not privatise it, except in a very limited way. It would appear that there never was any serious attempt or even consideration to privatise economic and policy analysis in the Ministry of Agriculture and Fisheries. This doesn't say that outside consultants are not used, but the core of economic and policy analysis is still carried out in-house. This has been a tradition in New Zealand and New Zealand has stuck with it.
- If Canada follows what has happened in New Zealand as a result of government reform and adopts a policy of non intervention in the economy, except for macro economics in terms of monetary and fiscal policy, it will find that the private sector will look inward and not to government for its future development. That is, when the Canadian government ceases to provide subsidies and other direct forms of assistance to the agricultural sector it will find that initially, based on the situation in New Zealand, that the agricultural sector will develop a strong independence. The agricultural sector will no longer look to government as a major provider of income and only in a limited way other services. It will see government in terms of providing an improved climate in which the private agricultural sector can function. If it follows the New Zealand case industries that have statutory marketing board legislation will seek to obtain greater autonomy and seek reform in the functioning of their legislation Industry will look to government for the provision of establishing regulations where there is the danger of capture but will want the actual application of regulation to be made contestable. Government will still be looked to for the monitoring of the delivery of regulation,

however. When the government seeks to apply user pays, industry will demand that the regulatory services be made contestable.

- A more independent agricultural sector especially in those areas that are reliant on the international market will still look to government for providing leadership in improving the conditions for market access. Where this leadership and thus analysis comes from in the federal government is another issue. In the New Zealand case, MAF has wound up with a minimal role in economic analysis other than to assemble information and describe developments internationally. It would appear that MAF has been placed more in the data and fact gathering role component of providing information. (refer to Figure 5.1).
- It is likely that government will be required to play an important role in the area of agricultural sustainability as influenced by the Resource Management Act. There will be growing conflicts between farmers and industry over resource management which will have to be resolved by government. Whether this is at the local, (provincial in Canada,) or national level is not clear at present in the case of New Zealand. It is also likely, following the case of New Zealand that there will need to be increased attention paid to problems and to issues that involve the human aspects of agriculture. There are major structural adjustments that are taking place in New Zealand that require increased social research to provide information on deciding how to provide educational, health, recreational, and other services. There is evidence that this is seen as a problem at the Ministerial level but it has not been fully translated into outputs and thus the budget (Purchase Agreement). In this case the budget for Rural Resources does not provide for in-house research although it does provide for some research outside of the Ministry. The research, to the extent that is being carried out, is primarily in the universities and other agencies. Whether it is adequate given future problems is not clear. My general assessment and judgement is that it is not.
- Although there has been research carried out on risk and uncertainty in agriculture there would appear to be inadequate applied work being done. There are no safety net programs in place. There is little or no work being carried out on the development of risk management strategies for farmers such as the use of derivatives. Whether this is a role for government is a matter of opinion. It certainly does not appear at present in the recent Purchase Agreements. To what degree the private sector will invest in these areas is not clear. It depends to what degree they are seen to be public goods, and hence will be under invested in by the private sector.

6.7 The Role of Government With Reform: A Perspective

The problem for government is to determine those areas in which it must maintain influence and/or control. Without attempting to write a discourse on the issue (or revisit Adam Smith), one could argue convincingly that the government must continue to play a role where the private sector has little or no capability in providing goods and services that tend to be “public” in nature. One could also argue that the public expects government to work to maintain an economically healthy economy and thus a rising standard of living for its people. This raises the delicate question of how to do this, which has been at the heart of economic and political philosophy historically. It would appear that with the failures of the socialist (communist) experiments in the former USSR and Eastern Europe and elsewhere, that capitalist ideology has generally prevailed. The question now is the nature of the capitalist model, and the role of government in it.

One area in which the government may have a responsibility in an indirect sense is to influence the development of appropriate new institutions, especially those which industry requests or requires but is incapable of developing on its own. There is clearly a role for government to legitimise the formation of organisations and institutions that are legal in nature. Examples here include the formation of coordinating and/or integrating groups such as councils, marketing boards, or associations for the coordination of research and promotion, collection of information, and other activities that farm and value added firms would not, or could not, do under their own initiative. One example is the passage of enabling legislation at both federal and provincial levels for the establishment of marketing boards and commissions. A more recent case is where the government of Quebec fostered the creation of industry Round Tables for the major commodity areas in order to help facilitate industry coordination and development.

The presence of market failures is always held up as one of the key justifications for government action. The problem is that there is little agreement on what constitutes market failure. Without attempting to get too deeply into the issue, one perspective is that of the existence of externalities where the objective functions of private firms and agencies are different from those of society. There are also public goods and services that receive too little investment by the private sector.

One of the key questions is the extent to which nations are willing to subject their economies to the market, that is to let their currencies float free, to reduce protection and to free capital and labour movement. Has the new GATT agreement and the decision to form the WTO as a more permanent body to work for the maintenance of unrestricted trade, ushered in a new era for international trade? In particular, what implications does it have for agricultural and food sectors? To what extent will countries like Japan and the EU submit their agricultural and food sectors to less protection and less intervention? Already Japan, in particular is showing resistance to abiding by the GATT agreement to which it was a signatory, let alone accepting the Agreement's philosophy of less protection for its agriculture and food sector.

It can be argued that a globalized economy will result in greater specialisation and thus greater trade, if one adheres to the theory of comparative advantage. This implies that there will be a process of adjustment that will take place in economies, including agricultural and food sectors. Those sectors that have been most protected are potential candidates for decline. In Canada economists have speculated over the future of the supply managed sectors (dairy, and the feather commodities) should protection be removed. In the EU what will be the effect on the level of production, of demand and hence trade from what has been agreed to under GATT or from a further reduction in protection and subsidisation of production and trade? It implies that there will be a process of sectoral and industry rationalisation. On a country basis some industries will expand and some industries will decline, some industries may fail to survive altogether.

This adjustment process places greater emphasis on the need for industries to achieve increased efficiency and more importantly their effectiveness. Competitiveness will be the essence of industry profitability. Industries that aren't efficient and effective in developing new technology and new markets will not be profitable. Industries that have developed and have functioned under border protection and subsidies will have to face competition from imports, unlike previously.

Countries whose industries fail to adjust and increase their efficiency and effectiveness will not prosper relative to those countries whose industries have. If there are gains from trade, all

countries can potentially increase their standard of living even if their industries are not among the most efficient, but the real winners will be those countries who have the most efficient and thus competitive industries.

I now return to the question, what is the role of government in this new globalized economic environment? Is it simply one of less government, which is what is implied if government is to play a lesser role in the economy? Or is it a more specialised role that sees government in partnership with industry in the pursuit of greater competitiveness? Or is it perhaps partnership for the achievement of higher level societal goals which based on society's demands cannot be ignored by the private sector? The future role of government in large part depends on the perspective that is taken for industry adjustment and development. It hinges also on what is required to make industries more efficient and effective and thus competitive and responsive to societal goals.

Agricultural and food industries in modern industrialised economies are complex, meaning specialised and vertically segmented. Efficiency comes from the development and adoption of new cost reducing technologies. Efficiency also comes from effective vertical system coordination. How can this be accomplished? Can governments leave it totally to industries to sort this out, in a true "laissez faire" manner. Or do governments need to play a role in assuring that the "correct" environment is in place that will ensure that new technology is being developed and adopted? I would argue that there is an important role for government in this area. This was one of the main criteria adopted in examining the role that the New Zealand government has taken for the agricultural and food sector.

Another issue that affects the decision for the future role of government is the need for preventing or correcting market failures. Firms and industries, unless they are altruistic, are not likely to internalise the externalities that result from their economic activities. Society will look to government for protection and compensation.

It is an issue that transcends international borders and permeates the trade environment. For example, it has been an issue in NAFTA, in terms of Mexican environmental regulation relative to that in the United States and Canada. Industries that are not required to internalise their negative externalities, hence add to costs, are able to price commodities more competitively.

This raises the broader question of appropriate regulation. It places governments in an awkward position of trying to be both a partner and a policeman at the same time. It means that industry must understand that government must play different roles, much like a parent must do in raising a child. In well adjusted and trusting households, children learn to accept and understand that the usually caring parents often are required by the children's behaviour in disobeying established rules, to punish their children. So too must firms and industries learn to live and work with government in their capacities and requirements to nurture and to discipline.

6.8 A Footnote to the Lessons and the Study

This paper does not entirely agree with the impressions that the report Toward Better Governance by the Office of the Auditor General of Canada leaves with the reader, especially when it discusses the organisational design of government management in New Zealand. The adoption of contracting for services inside government has introduced certain efficiencies but would appear to have had an adverse effect on the quality of policy analysis and advice.

It is one of the hypotheses of this paper that the intellectualism that led to the development and adoption of the current managerial system may not currently be in place to determine equilibrium and thus the system's optimum. In other words if there is insufficient attention paid to the current management system it is unlikely to strike the right balance in determining the government's role in the economy and society given the goals that government seems to have set for itself. It is not fully clear if the State Sector Commission has placed sufficient resources to carry on the development and monitoring of the new management system. This responsibility and work would appear to rest with the State Sector Development Branch of the State Sector Commission. Time will tell.

New Zealand seems to be only starting to examine and debate the benefits and costs of this major element of reform and thus the appropriate level of government involvement in the economy and society. As Boston and Chapman state, government at the political level has still not fully absorbed the new model of government organisation and management.

The new managerialism that has been adopted in New Zealand for government should not be fully adopted in Canada without great care and caution. There is much to commend what reform has accomplished in New Zealand. But there is still much to be resolved in terms of the appropriate roles for government especially for the future development of New Zealand industry in agriculture.

There is still much to learn about the relative effectiveness and efficiency of the new model of government organisation and management in the delivery of economic analysis and policy advice for government. The debate over competitiveness versus cooperation in industry seems to be developing in terms of improving on efficiency and effectiveness but the role(s) that government is to play still needs to be resolved. Is government seen as a partner by industry (and community) for its future development? Does government see itself as a partner with industry? The dialogue that currently takes place seems to be at an informal level. Whether this is sufficient to resolve this issue of industry-government relationships is not clear. This paper (tentatively) suggests that it is not.

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APPENDIX A

APPROACH TO STUDY

A.1 Introduction

The following provides the context in which the study was carried out and describes the approach that was followed.

A.2 Background

The study was carried out as part of the sabbatical leave of Gary Storey who is Professor, Department of Agricultural Economics, University of Saskatchewan. The focus of the sabbatical was:

- to study the development of successful agricultural/food industries in terms of industry organisation and vertical market coordination and integration in a number of areas that would include: the development of appropriate institutional linkages between the business, government and the research community for the development of new technology, human capital the accumulation of financial capital for industry growth and development.
- to study how agricultural economies and industries effectively adjust where there is a major reduction in government involvement in terms of policies and programs that directly and indirectly subsidise the industry. That is, how have industries replaced the roles of government with new institutions”(Sabbatical Proposal, 1995).

The location of the sabbatical was to be New Zealand where the process of changing the role of government has been very extensive. It was felt that New Zealand would provide the best laboratory for this study. The Department of Economics and Marketing, Lincoln University, was selected as the host institution because of the interest and work of several faculty in the policy, macro economic, institutional and marketing areas.

In October 1995 I was approached by Dr Robert McGregor of EPAD, Chief of Domestic Policy, Agriculture and Agriculture-Food Canada, to see if I would undertake the project. The project was developed and agreed to in early December.

A.3 Procedures Followed

The following steps were followed in carrying out the study.

Step 1

Once the objectives of the study were agreed to, these were given to three faculty members in Economics and Marketing at Lincoln University for review and comment and advice in terms of the approach to follow, appropriate literature and suggested contacts.

The reviews all indicated that the questions that were being asked were extensive given the short time frame of the project. Also, they felt that for certain questions there would be no definitive answer, just opinions. In other words it may be too early to tell the lessons to be learned in certain areas: the verdict is not fully in on questions about the results of reform in a number of areas.

Advice was obtained on a wide range of literature in terms of background history to the economic development of New Zealand, books and government documents on the reform

process, studies and reports on analysing the effects of reform in general and on the agricultural sector in particular.

The advice was that it would be necessary to interview government officials and economists in the industry, and in particular the Departments of the Ministry of Agriculture (MAF) and Treasury. Initial contacts were suggested.

Step 2

Mr Grant McFadden of MAF in Christchurch was interviewed to provide first line contact with MAF and to help establish further contacts, and also to provide initial information on the structure of MAF and the Policy Branch.

Step 3

Further advice was sought from several key individuals in MAF as well as former MAF economists. The interviews were carried out over a six-day period in Wellington. Those interviewed included the Chief Executive of MAF, Dr Russell Ballard, his assistants, Directors of the Policy Branch in MAF, and several other economists. Two former MAF officials, Dr Robin Johnson and Dr Royce Elliott were important contacts. Interviews were arranged with as many industry officials as was feasible given the time frame. An interview was arranged with Federated Farmers as well as the agricultural advisor to the Prime Minister. The names and addresses of those who were interviewed is contained in Appendix A.

Step 4

Sets of questions were formulated in advance to facilitate the discussion.

Step 5

The last step was to write the report. It was decided to rely on the literature where it was available and appropriate for information and opinion on many of the questions being asked. The approach was to cite the author(s) rather heavily so as to provide their statements on various issues in their own words. This approach was also followed so as to avoid as much as possible, "getting it wrong". This should help to explain the extensive use of quotations.

The other problem was the need in certain cases to protect the confidentiality of the source of information and opinion obtained from certain people who, when interviewed, provided very frank opinion on sensitive issues about reform and the reform process. Where this was felt to not be a problem the source of information and opinion was provided.

A.4 Contacts Made and Those Interviewed

MINISTRY OF AGRICULTURE: Wellington

The addresses for the following are:

ASB Bank House
101-103 The Terrace
PO Box 2526
Wellington, New Zealand

Dr Russell Ballard
Director General, MAF
MAF Directorate General
Telephone: (64)(4) 474 4100

Dr Peter O'Hara
Deputy Director-General, MAF
MAF Directorate General
Telephone: (64)(4) 472 0367

Mr Larry Ferguson,
Assistant Director-General and Group Director
MAF Agriculture Policy
Telephone: (64)(4) 472 0367

Mr Alan Walker
Director, Rural Resources
MAF Agriculture Policy
Telephone: (64)(4) 474 4100

Mr John Askwith
Director, Policy Services
MAF Agriculture Policy
Telephone: (64)(4) 472 0367

Dr Ann Pomeroy
Manager, Rural Affairs
MAF Agriculture Policy
Telephone: (64)(4) 474 4271

Mr Alwyn Shepherd
Senior Agricultural Economist
MAF Agriculture Policy
Telephone: (64) (4) 474 4212

Mr Rod Forbes
Senior Analyst
MAF Agriculture Policy
Telephone: (64)(4) 474 4222

Mr Ray Jeffrey (on secondment from Australian Government)
Policy Advisor
MAF Agriculture Policy
Telephone: (64)(4) 474 4100

MINISTRY OF AGRICULTURE, Christchurch

Mr Grant McFadden
Regional Policy Manager
MAF Agriculture Policy
68 Mandeville Street
PO Box 8640, Riccarton
Christchurch, New Zealand
Telephone: (64)(3) 348 2618

THE TREASURY

Dr Peter Bushnell
Deputy Secretary to the Treasury
The Treasury
Social Policy and Government Services Branch
PO Box 3724
Wellington, New Zealand
Telephone: (64)(4) 471 5176

Mr Michael Papesch
Manager
Land and Natural Resources
The Treasury
1 The Terrace
P. O. Box 3724
Wellington, New Zealand
Telephone: (64)(4) 471 5080

AGRICULTURE INDUSTRY

Mr Robert Davison
Director
New Zealand Meat and Wool Board's Economic Service
Level 7 Wool House
10 Brandon Street
P. O. Box 5179
Wellington, New Zealand
Telephone: (64)(4) 472 2178

Mr Nigel Mitchell
Manager, External Policy
New Zealand Dairy Board
25 The Terrace
P. O. Box 417
Wellington, New Zealand
Telephone: (64)(4) 471 8300

Dr Alan Royal
Executive Director
New Zealand Meat Research and Development Council
Seabridge House, 110 Featherstone Street
P. O. Box 1975
Wellington, New Zealand
Telephone: (64)(4) 499 1252

OTHER CONTACTS IN GOVERNMENT AND RELATED INSTITUTIONS

Mr Jeremy Harding
Policy Director
Federated Farmers of New Zealand Inc.
Agriculture House
12 Johnson Street
P. O. Box 715
Wellington, New Zealand
Telephone: (64)(4) 473 7269

Dr Royce Elliott
Executive Director
New Zealand Institute of Public Administration (Inc.)
P. O. Box 5032
Wellington, New Zealand
Telephone: (64)(4) 389 8776

Dr Robin Johnson (*retired MAF civil servant now consulting with MAF*)
Policy Consultant
c/- MAF Agriculture Policy
Telephone: (64)(4) 474 4100

Mr Owen Symmans
Adviser
Department of the Prime Minister and Cabinet
Executive Wing
Parliament Buildings
Wellington, New Zealand
Telephone: (64)(4) 471 9695

UNIVERSITY

Economics and Marketing
P. O. Box 84
Lincoln University
Lincoln, Canterbury
New Zealand
Telephone: (64)(4) 325 2500

Dr Paul Dalziel
Senior Lecturer

Dr A. C. Zwart
Professor

Dr Ralph Lattimore
Professor

Dr John Fairweather
Senior Researcher in Sociology

Dr Jonathan Boston
Professor
Department of Political Science
Victoria University
Wellington, New Zealand
Telephone: (64)(4) 472 1000

APPENDIX B

1995/96 PURCHASE AGREEMENT EXCERPTS FOR MAF POLICY

APPENDIX 1.1 TRADE LIBERALIZATION

KEY RESULTS/MILESTONES

SRA 3

- (i) Pursuing and enhancing the open international trading system and exploiting the successful outcome of the Uruguay Round, by addressing new forms of protection and moving key economic relationships to a new level.

Key Result

The terms of the GATT Agreement are fully implemented.

Milestones

- Contributions to the New Zealand position on the arrangements relating to outstanding GATT Uruguay round country specific and MFN access commitments completed to the satisfaction of the Secretary of Foreign Affairs and Trade.
- Contributions to the New Zealand position on the structure and agenda of the GATT WTO Committees completed to the satisfaction of the Secretary of Foreign and Trade.
- Mechanism of meeting New Zealand's compliance and reporting obligations relative to the agriculture elements of the Uruguay Round Agreement established.
- Systems of monitoring the compliance for our major trading partners with their GATT obligations arising from the Uruguay Round Agreements on agriculture, including SPS measures established.
- Potential benefits and adverse impacts with respect to New Zealand agricultural exports arising from the enlargement of the European Union are reported to the Minister and the Secretary of Foreign Affairs and Trade.

Key Result

- New Zealand's trade policy agenda for agriculture in the post-Uruguay Round is identified and our participation in targeted international fora is used to influence and shape future multilateral negotiations and agreements.

Milestones

- Through collaboration with other Government agencies, industry and NGO organisation, a New Zealand strategy for the multilateral consideration of the interactions between environmental policies and trade liberalisation is developed.
- Negotiations on the FAO International Undertaking on Plant Genetic Resources of Food and Agriculture completed.

- Outcomes sought by New Zealand from the next meeting of the Codex committee on Milk and Milk Products negotiated with the New Zealand Dairy Board.

Key Result

- Agriculture and seafood sectors are helped to increase their contribution to economic growth by MAF.
 - Identifying and publicising opportunities and risks from the GATT Uruguay Round and what follow.
 - Facilitating implementation of the Round's results for agriculture.
 - Acting to support the realisation of the GATT Agreement outcomes

Milestones

- Strategic plans which maximise opportunities and identify risk in specific markets are developed and implemented in consultation with stakeholders in the meat, dairy and plant areas.

Key Result

- Closer trade relationships with key markets in the world are achieved through effective negotiation of trade rules in international fora and bilateral agreements on trade protocols.

Milestones

- Trans-Tasman negotiations on harmonisations of food standard and agricultural and veterinary chemicals completed.
- Three position papers delivered in international standard-setting fora.
- Bilateral agreements which are based on the concepts of equivalence as set out in the GATT Sanitary/Phytosanitary Agreement will be sought with EU, Japan, Korea and Taiwan.
- Assist MFAT in exploiting possibilities for more formal trade and economic relationships and technical cooperation with regional groups such as APEC, AFTA, NAFTA and individual states in Asia and the Americas.
- Contract operational research and collate information on, more efficient means of testing for pesticide residues and identifying exotic fruit fly larvae. Contract the development and validation of data bases on pests associated with specific crops and crop/pest associations. This work will underpin the developments of robust protocols covering the import/export of horticultural products.

APPENDIX 1.2.1 AGRIBUSINESS

KEY RESULTS/MILESTONES

SRA 2

- (ii) Establishment, implementation and monitoring of legislative frameworks for the fair and efficient conduct of business and the operations of markets, which rewards innovation, promotes efficiency and enhances investor confidence.

Key Result

- Regulatory, infrastructural and institutional arrangements which are no longer cost-beneficial and are prejudicial to the performance of the primary sector are amended.

Milestones

- Policy development completed for legislation amendments which enable the introduction of industry provision of front line meat inspection services.
- Agricultural Compounds Bill-assist with passage of the legislation and prepare appropriate regulations to enable new system to come into effect concurrently with HSNO Act (estimated to be 1 July 1996). (Note the Bill should be enacted in 1995 to achieve this target).

Key Result

- Decision-makers have access to information on trade policy, market issues, product volume and price trends, technical standards and guides.

Milestones

- Situation and Outlook for New Zealand Agriculture and 11 issues of Agfacts published.
- A programme of regional seminars agreed with the Minister and implemented.

Key Result

- Industry marketing and infrastructural arrangements which evolve from informed debate among stakeholders.

Milestones

- Policy developments for the proposed Producer Boards Acts Amendment Bill completed, taking account of proposals being developed within the agricultural industry.
- The government decides on the kiwifruit industry marketing arrangements based on policy advice which takes account of any recommendations arising out of the industry review.

- The joint (MAF Treasury and MoC) work programme agreed by the responsible Ministers on asset ownership and corporate structures and related matters pertaining to the industry production, processing and marketing arrangements is completed.
- Commodity Levy Act application received in respect of levies that will expire in 1996 are processed in time to avoid transition difficulties. (Note each application requires approximately four months from conception to completion)

Key Result

- The sectors develop pest management strategies to control and eradicate significant pests and diseases.

Milestones

- Policy development for amendments to the Biosecurity Act relating to the funding and enforcement of regional pest management strategies completed by September 1995.

Key Result

- A food safety regulatory environment which allow responsible enterprises to manage food safety requirements as part of their own quality management.

Milestones

- The review of the legislation and operational framework for food safety administration progressed by a MAF/MoH working party to a work programme and timetable agreed by Cabinet and targeting the acceptance of a single regulatory agency.
- * complete policy development for amendments to the Biosecurity Act relating to the funding and enforcement of regional pest management strategies by September 1995.

APPENDIX 1.2.2

LEGISLATION

Bills

- 1 Agricultural Compounds Bill-assist with passage of the legislation and prepare appropriate regulations to enable new systems to come into effect concurrently with HSNO Act (estimated to be 1/7/96)
- 2 Meat Act amended to allow contestability by 30.6.96
- 3 Biosecurity Act amended to facilitate adoptions of Pest Management Strategies.
- 4 Complete policy development and drafting for the Producer Boards Act Amendment Bill to enable introduction to permit introduction in accordance with the 1995 legislation programme.

Regulations

Provision of advice to the Minister in respect of the following proposed regulations.

- 1 Regulations establishing levies under the Commodity Levies Act.
- 2 Regulations under the Biosecurity Act relating to cost, forms, border protection and risk premises.
- 3 Animals Protection (Codes of Ethical Conduct) Regulations.
- 4 Animals Identification Regulations
- 5 Meat (Residues) Regulations and associated Game Regulations
- 6 Poultry Processing Regulations
- 7 Meat (Payments) Regulations
- 8 Dairy Industry (Fees) Regulations

APPENDIX 1.3.1 RURAL RESOURCES

KEY RESULTS/MILESTONES

SRA 9

- (i) Development of Standards and policy mechanism for achieving environmental quality at least to domestic and international benchmarks in respect of land degradation, water quality including effects of benchmarks run-off pollution, air quality and contaminated sites.**
- (ii) Development and monitoring of policy and legislative frameworks for management of the environmental effects of production and use of energy, including CO2 emission, hazardous substances and other activities within the ambit of the Resource Management Act.**

Key Result

- Practical indicators and standards of sustainable agriculture are developed and adopted.

Milestones

- Practical indicators of sustainability in farming systems associated with soil retention and water quality are identified through research.
- MAF's responsibilities in meeting New Zealand's obligations through the use in industry-agreed codes, agreed management practices (including risk management) and market mechanisms to meet sustainable agriculture objectives.

Milestones

- The impacts of proposed local government policy statements and plans on the rural sector are assessed and where appropriate, submissions are made.
- Development and application of the following programs;
 - Best management practices for pastoral agriculture (a joint Federated Farmers/MAF initiative)
 - Industry-agreed environmental standards for dairying (Dairy Environmental Committee)
 - Best management practices information for dairy shed effluent treatment, soil erosion, soil compaction, nitrogen use and spray use (joint initiatives with industry groups).
- Quarterly reports are prepared for the Minister which comment on the application of the Resource Management Act by regional and district councils with particular reference to impact on agriculture and horticulture.

Key Result

- “Landcare” groups and focus farms are established for the transfer of experience and information to other land users

Milestones

- Community of interest groups including landcare groups (15), agricultural advisory groups (2) rural development groups (7) and seminars and field days (20) are serviced.

(Five demonstration properties integrating good farm management's and environmental practices for use in demonstration purposes are maintained)

Key Result

- Integrated development of communities and agricultural industries

Milestones

- Proposal on integrated rural development of communities policies to be prepared for the Minister's consideration by 31/12/95

Operational Research

- Expressions of interest have been sought on the following topics:
 - (a) factors affecting the rate of adoptions of new technologies and practices in agriculture,
 - (b) mechanisms of assessing progress toward sustainable agriculture. especially indicators of
 - soil health
 - land degradation
 - water quality
 - air quality

that farmers can use or might apply at the catchment scale;

- (c) the role of potential value of soil nematodes as indicators for agro-system health,
- (d) options for on-farm utilisation of dairy shed effluent,
- (e) methane production from agricultural systems in relation to climate change: mechanisms and rates of production and potential mitigation measures,
- (f) nitrogen budgets and the dairy industry,

- (g) the importance of clovers as sources of nitrate contamination of groundwater,
- (h) drought proofing strategies for pastoral agriculture,
- (i) collective non-regulatory responses for addressing land degradation or water quality problems caused by agriculture (non-point source pollution),
- (j) the potential use of specific economic instruments in achieving sustainable agricultural in New Zealand.

APPENDIX C

CHRONOLOGY

STABILISATION AND LIBERALISATION

MEASURES IN NEW ZEALAND

1978-1993

Year	Measure Introduced/Announced (by category)
1978	<p>Exchange Rate Policy- Announcement of intentions to manage an overvalued exchange rate to provide incentives to exporting industries.</p> <p>Domestic Product Markets - Introduction of 'Supplementary Minimum Price' (SMP) schemes for wool, meat and dairy.</p> <p>Agricultural Finance Market-Introduction of the rural 'land development encouragement' scheme (LDEL)</p>
1979	<p>Exchange Rate Policy (June)- Relaxation of controls on purchase of exchange and introduction of 'crawling peg' exchange rate.</p> <p>Commercial Policy (June)</p> <ul style="list-style-type: none"> - Introduction of 'Export Performance Tax Incentive' scheme replacing the 'Increased Exports Taxation Incentive' (1963). - 'Industry Plans' developed for 17 industries with intention to increase international competitiveness. <p>Agricultural Finance Market-Introduction of vendor finance scheme.</p>
1980	<p>Domestic Product Markets-Removal of discretionary licensing of export slaughterhouses.</p> <ul style="list-style-type: none"> - Introduction of Poultry Board to join the already established boards for meat (1922), dairy (1938) wheat (1965), town milk (1967) and pork (1974).
1981	<p>Commercial Policy (November) - Commencement of tendering of increasing number of import licenses for non "Industry Plan" industries.</p> <ul style="list-style-type: none"> - Start of conversion of protection to tariffs alone. <p>Domestic Product Markets - Legislation establishing account for meat to join the already established accounts for dairy (1954) and wool (1976).</p>
1982	<p>Exchange Rate Policy (June) - Fixed exchange rate reintroduced. Monetary policy (June) - Introduction of a freeze on wages and prices, and controls on interest rates limiting government stock rates to 8% and first mortgage rates to 11%.</p>
1983	<p>Commercial Policy (January) - Announcement of Closer Economic Relations (CER) agreement with Australia, with commitment to freer trade and financial integration.</p> <p>Fiscal Policy (September) - Ceiling of \$750 million placed on Reserve Bank advance to Dairy Board (effective from 1 January 1984).</p>
1984	<p>Monetary Policy - Price freeze partially lifted early in 1984, then gradually for other commodities in last half.</p>

Domestic Product Markets (June) - Announcement of intentions to end SMP scheme.

Commercial Policy (June) - Producer Board reserve account at Reserve Bank to be charged commercial interest rates.

Exchange Rate Policy (July) - following a major capital outflow, the newly elected government undertook a devaluation of 20% against a basket of currencies of major trading partners.

Financial Markets (July) - Market deregulated. Credit growth guidelines abolished and marginal ratio policy applicable to finance companies removed. Controls on interest-bearing deposits removed
- (August) - Further deregulation with two additional controls on interest rates being removed.

Commercial Policy (August)

- Announcement of programme to phase out export incentives and to increase access for imported goods.

- (October) - Announcement of abolition of Wheat Board.

Labour Policy (November) - Wage freeze lifted and annual wage rounds preceded by tripartite talks set up.

Fiscal Policy (November) - Announcement in Budget of phasing out of fertiliser and noxious weeds subsidies, lowering of irrigation and water supply subsidies, partial cost recovery on product inspection reintroduced (December 1985) and Rural Bank and Finance Corporation (RBFC) interest rates raised progressively (by 1% annually) to market rates. Investment taxation allowance allowed to expire and farm vendor finance scheme ended.
(November) - Introduction of value added tax announced commenced October 1986)

1985

Domestic Financial Market (February) - Abolition of 'compulsory rate system' requiring financial institutions to invest in government and public securities.

Exchange Rate Policy (March) - New Zealand dollar floated on 4th and Reserve Bank role shifts to control of monetary policy.

Fiscal Policy (April) - Crown assets of \$2.765 billion transferred to State Owned Enterprises (SOEs).

(June) - Ten year clawback and loss limitation taxation provisions repealed, land development concessions phased out and livestock standard value system modified. New procedures for controlling expenditure growth and significant reduction in 1985/86 deficit to 2.8% of GDP forecast.

Commercial Policy (June) - Commitment made to phasing out assistance to land based and manufacturing industry.

- Domestic Product Markets - Phosphate Commission abolished (June). Marketing and Price Controls of Poultry Board to be abolished 1 April 1986 (September), termination of Meat Board Sheep Pool and trade returned to the private sector (November).
- 1986 Fiscal policy (May) - Introduction of cost recovery of advisory, research, animal health and quarantine services, while MAF budget to be progressively reduced.
 (July) - First year depreciation allowance withdrawn.
 (October) - Goods and Services Tax (GST) commenced at 10%.
- Agricultural Finance Markets (July) - announcement of RBFC discounting loans scheme (applications closed July 1987).
- 1987 Domestic Product Markets (January) - Wheat Board disbanded.
 (March) - Write-off of Meat Income Stabilisation Account (MISA) debt.
- Commercial Policy (April) - Creation of nine State Owned Enterprises (SOEs).
- Fiscal Policy (June) - Announced sale of government assets to pay off public debt, an measures to reduce tax evasion.
- (December) - Announcement of major tax and tariff reforms including raising GST to 12.5%, and reduced personal and company tax rates (from 1 October 1988). Full dividend imputation scheme and superannuation funds to be subject to tax from 1 April 1988.
- Commercial Policy (December) - A four year programme to tariff reductions, and a two-step reduction in duty on motor vehicles announced.
- 1988 Fiscal Policy (January) - The earlier announced flat personal income tax rate and guaranteed minimum family income proposals abandoned.
 (July) - Review of state sector to promote efficiency and productivity announced. Tax cuts and maintenance of reduced budget surplus announced and also intended reduction in overseas debt. (December) - Announcement of major new tax legislation with reference to imputation, international, provisional and trusts taxes.
- Domestic Product Markets (April) - Milk Board abolished.
 (September) - Kiwifruit Marketing Authority became the Kiwifruit Marketing Board with increased powers.
 (December) - Poultry Board abolished.
- 1989 Fiscal Policy (March) - Real cuts in operational expenditure of all government departments. New finance minister Caygill signals continuation of the Rogernomics strategy following the departure from Cabinet of Roger Douglas in December 1988 amid controversy with the Prime Minister over the handling of economic and social policy.
 (July) - Announcement in budget of intention of a zero fiscal deficit in the 1990/91 year.

- Announcement that inspection services by MAF Quality Management move to full cost recovery by July 1990.

(November) - Announcement of new measures for local government authorities.

Monetary Policy (May) - A new Reserve Bank Bill introduced to Parliament which sets the achievement and maintenance of price stability as Reserve Bank's primary objective.

(July) - Budget includes the restatement of 0-2% inflation target for 1992.

Agricultural Finance market (August) - Rural Bank (RBFC) sold to private interests.

1990

Monetary Policy (February) - Reserve Bank Act 1989 came into force.

(May) - tightening of monetary conditions by raising of the minimum float tender.

(June) - setting up of the New Zealand financial Markets Committee.

Fiscal Policy (March) - Finance Minister Cayill releases an economic statement detailing further economic reform including: revision of the Companies Act on mergers and takeovers; removal of restrictions on overseas ownership of ports; restructuring of New Zealand Rail for corporatisation; tariff reductions 1991-1996; proposed new Labour Relations Act with more flexible work practices; intention to sell Telecom.

(July) - Budget measures including abolition of excise duties on diesel and motor vehicle; tax simplification measures to reduce avoidance.

(December) - The new National Government's Economic Package included: across-the-board benefit cuts; abolition of family benefit with rise in more targeted family support; cuts in health subsidies ; end of compulsory unionism.

Science Funding and Policy (late 1990) - policy to establish new Crown Research Institutes announced.

Commodities Levies Act provides for compulsory levies on commodities to fund general development of specific industries.

1991

Monetary Policy (March) - New safeguards introduced for the banking industry after DFC failure.

Labour Policy (May) - Employment Contract Act took effect.

Fiscal Policy (July) - budget included: restructuring of health funding and charging and funding of public housing; higher levies on petrol and wages to fund ACC; higher alcohol and tobacco excise.

Resource Management (October) - Resource Management Act took effect, aimed at sustainable management of natural resources.

1992

Monetary Policy (March) - Standard and Poors reaffirm the AA - rating of New Zealand's long term debt.

(October) - underlying inflation 1.5%.

(December) - Dr Brash reappointed as Governor of the Reserve Bank. New inflation targets set at 0-2% rise in CPI.

Agricultural Regulations Reform - Dairy Board Amendment Act passed making the Board more independent of Government and more accountable to producers and the industry. Changes were proposed in several other areas,

including weed and pest management, import risk management, agricultural compounds, primary produce certification, animal welfare and producer boards.

1993

Livestock Taxation (year ending March) - Substantial changes made to livestock valuations for tax purposes. Trading Stock Scheme repealed, Herd Scheme retained with some changes.

Energy Sector Reform (April) - Energy Sector Reform Act took effect. Electricity Supply Authorities established as corporate entities, with likelihood of future privatisation.

Assistance to Agriculture (1992/93) - Effective rate of assistance to agriculture falls to -3% compared to 52% ten years ago.

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